

KARL THOMSON HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

The Board of Directors (the "Board") of Karl Thomson Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2001 together with comparative figures for the corresponding period in 2000 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2001

	NOTES	Six months ended 2001 HK\$'000 (unaudited)	30 September 2000 HK\$'000 (unaudited)
Turnover	3	18,554	25,673
Gain on disposal of shares in Hong Kong Exchanges and		,	
Clearing Limited ("HKEx")		_	23,534
Other income		199	662
Amortisation of intangible assets		(4,035)	_
Depreciation		(745)	(302)
Finance costs		(45)	(3)
Other operating expenses		(12,280)	(5,937)
Staff costs		(8,814)	(6,418)
(Loss) profit before taxation	3	(7,166)	37,209
Taxation	4	(485)	(1,957)
(Loss) profit before minority interest Minority interest		(7,651) 2,457	(35,252)
Net (loss) profit for the period		(5,194)	35,252
Dividends	5		25,000
Basic and diluted (loss) earnings per share	6	HK(1.15) cents	HK10.61 cents
NOTES:			

BASIS OF PREPARATION

The Company is an investment holding company. The principal activities of its subsidiaries are the provision of stockbroking, futures and options broking, securities margin financing services and operation of distribution platforms for online advertising. 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 Society of Accountants (the "HKSA").

PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention.

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 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the HKSA, which has resulted in the adoption of the following new and revised accounting policies:

Goodwill

In the current period, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1 April 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant business, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised over its estimated useful life. Negative goodwill arising on acquisitions after 1 April 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

In prior years, the Group did not recognise any regular amortisation charge in respect of its trading rights due to the fact that the recoverable amount of the assets was considered to be in excess of their carrying amount. SSAP 29 "Intangible Assets" requires that all intangible assets should be amortised over their useful lives. Accordingly, in the current period, the Group has adopted a policy of amortisation of its trading rights over their estimated useful lives. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods.

License and right to use a web-site and trademark are amortised over their estimated useful lives.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

SEGMENT INFORMATION

The turnover and contribution to (loss) profit before taxation of the Group, analysed by principal activity, were as follows:

Business segments	Turn for the si ended 30 \$ 2001 HK\$'000	x months	Contribution profit before for the six ended 30 Se 2001 HK\$'000	taxation months
Provision of stockbroking, futures and options broking	15.024	21.758	(5,451)	11,168
Securities margin financing Operation of distribution platforms for online	3,423	3,915	3,131	2,507
advertising	107		(4,846)	
	18,554	25,673	(7,166)	13,675
Gain on disposal of shares in HKEx				23,534
(Loss) profit before taxation			(7,166)	37,209

All of the activities of the Group are based in Hong Kong, thus, all of the turnover and (loss) profit before taxation are derived from Hong Kong.

TAXATION

Hong Kong Profits Tax for the six months ended 30 September 2001 is calculated at 16% on the assessable profits.

The Group did not have any significant unprovided deferred taxation for the period or as at the balance sheet dates.

5. DIVIDENDS

No dividend was paid during the six months ended 30 September 2001. The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2001.

Certain subsidiaries of the Group declared special dividends with an aggregate amount of HK\$25,000,000 to the then shareholders prior to the reorganisation of the Group for the six months ended 30 September 2000.

BASIC AND DILUTED (LOSS) EARNINGS PER SHARE

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

	Six months ended : 2001 <i>HK</i> \$'000	30 September 2000 HK\$'000
Net (loss) profit for the period attributable to shareholders	(5,194)	35,252
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)		
earnings per share	449,727	332,214

The computation of the diluted loss per share for the six months ended 30 September 2001 does not assume the exercise of outstanding share options because the effect of exercising an option to subscribe for an additional share of the Company would result in a decrease of net loss per share.

The weighted average number of ordinary shares for the six months ended 30 September 2000 for the purposes of basic earnings per share has been adjusted for the bonus issue which was approved by the shareholders on 31 August 2001.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2001 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The first half of 2001 has been a great challenge for the Group. In view of the unstable market performance resulting from the economic slowdown and the September 11 Terrorist Incident, its traditional brokerage business was inevitably affected. As part of its globalization plan, tremendous effort has been continued in business diversification, not only further strengthening its traditional stock and futures brokerage business, but also exploring new horizons for the online financial business.

During the period under review, the Group recorded a turnover of HK\$18,554,000, representing a decrease of 28% as compared to the figure of last corresponding period. Net loss for the period was HK\$5,194,000 compared to the net profit of HK\$35,252,000 in 2000 and loss per share was HK\$0.0115. The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2001.

months ended 30 September 2001.

The decrease in turnover was mainly attributable to the poor market sentiment worldwide arising from the deteriorating US economy. The increased volatility stock market has deterred investors from actively participating in equity investment activities. The fall in profit during the period under review was mainly due to the Group's active exploration of innovative financial products which were still under start-up period, resulting in the upsurge of operating expenses to HK\$12,280,000 which almost doubled that of last corresponding period. The profit was also dragged down by the amortization incurred by the acquisition of LuckySurfAsia.com. Therefore, if excluding the above new and long-term investment expenses, our core business still achieved a profit during the period under review. In face of the unfavourable worldwide market sentiment and economic slowdown, the Group's core business maintained a profit which is attributable to our dedicated staff. The management has planned different strategies to cope with the changing market environment. The Group believes the investment in financial products is necessary for the Group's strategic development in the long run, and establishes a solid foundation for diversification of financial services and profit maximization in the future.

As at 30 September 2001, the Group has cash and bank balances of

diversification of financial services and profit maximization in the future.

As at 30 September 2001, the Group has cash and bank balances of approximately HK\$96,537,000, which included approximately HK\$30,958,000 of clients' funds that were kept in designated bank trust accounts and approximately HK\$65,579,000 internal cash resources kept in general accounts. As most of the Group's cash reserves were placed in Hong Kong dollars short-term deposits with major banks in Hong Kong with no related hedges, the Group's exposure to fluctuations in exchange rate is minimal. As at 30 September 2001, the Group has no bank liabilities or contingent liabilities apart from a pledged bank deposit amounted to approximately HK\$2,068,000. As at that date, the Group's shareholders' equity was approximately HK\$259,243,000 (2000: approximately HK\$143,634,000) and the Group's current ratio was 401% (2000: 526%). As at 30 September 2001, the Group employed about 65 full-time staffs and 23 account executives in Hong Kong. The Group remunerates employees based on performance, experience and prevailing industry practices. It also offers benefits such as professional tuition and training arrangements to staff to enhance their product knowledge and sense of loyalty.

The Brokerage Business

The Brokerage Business

Currently, stock and futures brokerage remains the major business of the Group which contributed over 80% of total turnover. During the period under review, the Group recorded a turnover of HK\$15,024,000 for the brokerage business compared to HK\$21,758,000 in the last corresponding period. The decrease in turnover was mainly due to the worldwide detrimental market conditions and fierce competition within the industry. Currently, the Group operates 2 branches located in Kwun Tong and Shatin, servicing more than 5,000 clients.

The Securities Margin Financing Business

The securities margin financing business accounted for nearly 18% of the Group's turnover. For the six months ended 30 September 2001, the Group recorded a turnover of HK\$3,423,000 for this business segment compared to HK\$3,915,000 recorded in the last interim period. Adopting a prudent policy in risk management, the Group managed to maintain the liquidity level far above the official requirements as set by the Securities and Futures Commission ("SFC"). With strong financial back up, its funding requirements for margin financing loan were fully derived from internal resources.

Partnerships for Online Development

On top of the traditional brokerage business, the Group has been proactive in diversifying its financial business with the ultimate goal to globalize its financial service coverage. Foreseeing online services as an international development trend, the Group continued to focus its growth into two major areas namely, i) online financial products, ii) e-marketing and internet security business. The Group has carried out these expansion moves by introducing successful business models with a proven track record from overseas via acquisition, partnership or joint venture with reputable corporations.

LuckySurfAsia.com

LuckySurfAsia.com

In May, the Group acquired 57.1% of LuckySurfAsia.com through the acquisition of the entire issued share capital of LuckySurf International Limited by issuing 20,000,000 new ordinary shares of HK\$0.10 each of the Company. This platform was built on the successful proven model of LuckySurf.com which was able to breakeven within the first year and is one of the profitable websites in the US. It provides an efficient advertising channel for advertisers who are launching promotions to specific target audiences. Since acquisition, the Company has reported growth of 75% of new registered players and is expected to grow at this robust pace in the coming year. The Company has also successfully attracted more than 45 reputable online and offline advertisers and sponsors during this period. Major advertisers include Fairwood Restaurant, Random Logic, William Hills, Pearl Shop, PrimeCredit Limited and Vigour Entertainment among others.

Localizing the platform to meet different market needs, the Group has spun off

Localizing the platform to meet different market needs, the Group has spun off this platform into LuckySurfHK.com and LuckySurfTW.com in addition to the

existing one. The former was designated to serve audiences in Hong Kong and Macau while the latter was tailor-made for Taiwanese audiences. This online advertising platform enables the Group to build a significant database from its growing reservoir of participating players which can generate synergistic effect to market its financial services in Asia.

KTG Trade Ltd — A Joint Venture with GL Trade

The Group's second move was to extend our financial services into the web-based arena. On 29 June 2001, the Group entered into an agreement for the formation of a joint venture - KTG Trade Limited ("KTG Trade") with GL Trade SA ("GL Trade") of France aiming at the development and marketing of an online securities trading system in Asia. With solid experience in developing trading system in over 50 countries, GL Trade is also one of the partners of Hong Kong Exchanges and Clearing Limited in the development of connecting the Hong Kong Futures Automated Trading System to the rest of the world. Leveraging GL Trade's extensive network, the new platform can be connected to GL Global Net to cover over 50 overseas markets. Asian customers can directly access to international stock exchanges via the platform while it also provides accessibility for European customers to Asian stock exchanges.

KTG Trade is currently proceeding to register as a securities dealer. The system has already satisfied the relevant connectivity, functionality and stress tests in accordance with the official standards of SEHK. Currently, the system is undergoing an internal pilot run with gradual enlargement of testing points, aiming to perfect it as a stable, user-friendly and customer-oriented platform. The full-scale service will be launched in early 2002. Our marketing expertise has proven invaluable in introducing this state-of-the-art trading system to our customers.

Cooperation with CMC for Marketing CFD

Following the two successful models from the US and France, the Group further expanded its financial business by cooperating with CMC Group Plc. ("CMC") of the United Kingdom for online Contract For Difference ("CFD") trading. CMC is one of the first online trading companies which launched its real time foreign exchange internet services in 1996. Since then CMC has established itself as one of the leading internet trading companies in the world handling around 100,000 foreign exchange and CFD orders each month.

Pursuant to the agreement, the Group obtained the exclusive right from CMC to promote and market CFD trading in the Greater China Region covering Hong Kong, Macau, Taiwan and the PRC. The Group will offer CFD Internet trading services on indices and stocks to customers in over 60 countries on a 24-hour basis. As online CFD is an innovative product to the Hong Kong market, the Group has sought satisfactory legal opinions for such CFD online trading and has put forth an application to the SFC for approval. Full services will be introduced once official approval has been granted.

Latest Development — AudioSmartCard

By the end of November 2001, the Group has concluded another exclusive cooperation agreement with AudioSmartCard SA, a French specialist of Audio Signature to expand its business into Internet security business by promoting its new generation ID card - @CARD into the Greater China Region. The introduction of this security card would greatly complement and facilitate its online business development as a whole by enhancing the security and confidence of online applications. AudioSmartCard develops systems and applications of authentication, based on a card emitting a coded sound frequency identifying its user. The @CARD offers a new secured solution of the Internet and phone services with several unique benefits of having high security for all transactions where the sound sequence emitted by the @CARD is never the same and a pincode prevents any fraudulent use, of wide application with one card for all uses on any Internet and phone services, and of easiness to use with just one click on the button of the card.

In line with the ever-changing environment in the stock market, the Group strives to develop more innovative and diverse financial services in addition to our reinforcement in traditional stock and futures brokerage business. Further to the collaboration with reputable international partners, the Group will further explore overseas market and introduce more successful business models with proven track records.

With China's admission to WTO, more foreign investment funds will be attracted into the Hong Kong market which acts as their stepping-stone to the mainland. The capital influx is expected to accelerate Hong Kong's economic recovery while at the same time stimulating investors' activities in equity investments. The Group is optimistic that the overall financial environment will substantially improve by mid 2002. The Group will be well prepared to capture these business opportunities when chances arise.

The minimum commission charge of 0.25% is expected to be scrapped by April 2002. It will trigger off cut throat price competition in the industry and squeeze out numerous marginal operators. However, the Group believes that competition will be short-term and will be released when the industry was aligned through further consolidation. Being a medium-size financial service provider pursuing flexible management and effective cost control, the Group is in a better position to streamline overall operations and to consolidate our existing business. In addition, the Group will also compliment the alleviation of brokerage charges with higher quality services to enhance its competitive niche.

In the future, the Group will take advantage of burgeoning opportunities arising while at the same time adopting a prudent policy in pursuing profit maximization and ensuring a strong financial position.

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

During the six months ended 30 September 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the

AUDIT COMMITTEE

The Audit Committee, which comprises of two independent non-executive directors of the Company, has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial statements and this report.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period under review, in compliance with Appendix 14 of the Listing Rules, except that independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be subsequently published on The Stock Exchange of Hong Kong Limited's website in due course.

By Order of the Board Nam Kwok Lun Deputy Chairman and Managing Director

Hong Kong, 28 December 2001