



KARL THOMSON HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 7)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004**

INTERIM RESULTS

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

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

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

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

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

Goodwill/discount on acquisition

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

Impairment of assets

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

Intangible assets

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

3. SEGMENT INFORMATION

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

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

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

4. TAXATION

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

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

5. BASIC AND DILUTED EARNINGS PER SHARE

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

	Six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Net profit for the period attributable to shareholders	<u>51,542</u>	<u>1,280</u>

	Number of shares	
	2004	2003
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>460,000</u>	<u>460,000</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Market Overview

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

Despite a correction in the Hong Kong stock market during the period under review, the economy maintained growth momentum. As unemployment was improved particularly by the increase in demand for new recruitments from the booming tourist industry, the unemployment rate fell to 6.7% from the peak of 8.5% in 2003. With the improved

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

Brokerage Business

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

Share Margin Financing

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

Financial Management and Advisory Business

The Group sustained its impressive progress in financial management and advisory business since the establishment of our subsidiary, Karl Thomson Investment Consultants Limited in 2002. Turnover for the division (which accounted for 52.06% of the Group's operating revenue) advanced by 38.26% to HK\$10,570,000 (2003: HK\$7,645,000). The continuous growth was the successful result of our aggressive recruitment of high caliber and competent advisers and enrichment of our products to provide personalized and tailor-made service to meet the investment needs of clients. In the light of economic recovery, improved employment situation, low interest rate scenario and possible further liberalization of China

financial market, the demand for more sophisticated investment advisory services still sees fast growing and prospect looks promising. The Group will continue to expand our professional sales team, improve quality and enrich product range in order to provide superb financial advisory services for our clients.

Investment Banking

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

Material Acquisitions and Disposals of Businesses or Companies

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

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

Liquidity, Financial Resources and Funding

Despite the cash commitment of subscribing HK\$30,000,000 convertible note of ATNT during the review period, the financial position of the Group remained sound and healthy as

cash inflow was replenished from operation, the loan repayment from clients and the reduction of margin loan exposure. As at 30 September 2004, the Group has cash and cash equivalent of HK\$33,737,000 (2003: HK\$43,456,000) (excluding the pledged fixed deposits of general accounts).

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

Human Resources

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

INTERIM DIVIDEND

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

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

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed shares of the Company.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the period, except that the non-executive Directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the six-month period ended 30 September 2004, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive Directors of the Company. On 7 September 2004, Mr. Kwan Wang Wai, Alan was appointed as an independent non-executive Director and member of the audit committee of the Company.

DETAILED RESULTS ANNOUNCEMENT ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31 March 2004, which remain applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the website of the Stock Exchange in due course.

By Order of the Board
Karl Thomson Holdings Limited
Lam Kwok Hing
Chairman

Hong Kong, 15 December 2004

As at the date of this announcement, the Company comprises Messrs. Lam Kwok Hing and Nam Kwok Lun as executive Directors; and Messrs. Ng Chi Kin David, Chen Wei-Ming Eric and Kwan Wang Wai Alan as independent non-executive Directors.