KARL THOMSON HOLDINGS LIMITED
高信集團控股有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 7)

ANNOUNCEMENT OF 2005 FINAL RESULTS

RESULTS

The Board of Directors of Karl Thomson Holdings Limited (the "Company") is pleased to announce that the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005 are as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2005

	NOTES	**1.1.2005 to 31.12.2005 *HK$'000***	1.4.2004 to 31.12.2004 *HK$'000*
Revenue	5	**35,169**	29,753
Other income		**1,552**	840
Written back (allowance) for bad and doubtful debts		**4,771**	(3,011)
Amortisation of intangible assets		**(6)**	(4)
Depreciation		**(1,253)**	(1,556)
Finance costs	7	**(20)**	(9)
Other operating expenses		**(25,200)**	(20,203)
Staff costs, including Directors' remuneration		**(10,642)**	(7,422)
Discount on acquisition of an associate		**—**	41,728
Share of results of an associate		**9,669**	5,321
Profit before taxation	8	**14,040**	45,437
Taxation	9	**(35)**	(58)
Profit for the year/period		**14,005**	45,379
Attributable to:			
Equity holders of the Company		**13,845**	45,684
Minority interests		**160**	(305)
		14,005	45,379
Earnings per share	10		
Basic		**HK3.01 cents**	HK9.93 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	2005	2004
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Fixed assets	**1,064**	2,149
Intangible assets	**23**	29
Interest in an associate	**111,851**	77,333
Other assets	**4,030**	4,078
Loans receivable	**1,015**	1,061
	117,983	84,650
CURRENT ASSETS		
Accounts receivable	**29,898**	36,938
Investments in securities	**—**	12
Loans receivable	**464**	1,686
Other receivables, prepayments and deposits	**2,290**	2,021
Pledged fixed deposits (general accounts)	**7,823**	7,647
Tax recoverable	**319**	—
Bank balances (trust and segregated accounts)	**39,375**	48,402
Bank balances (general accounts) and cash	**29,150**	40,071
	109,319	136,777
CURRENT LIABILITIES		
Accounts payable	**45,599**	55,355
Accrued expenses and other payables	**3,886**	3,710
	49,485	59,065
NET CURRENT ASSETS	**59,834**	77,712
	177,817	162,362
CAPITAL AND RESERVES		
Share capital	**46,000**	46,000
Reserves	**131,540**	116,245
Equity attributable to equity holders of the Company	**177,540**	162,245
Minority interests	**277**	117
Total equity	**177,817**	162,362

Notes:

1. **CHANGE OF FINANCIAL YEAR END DATE**

In the period of 2004, the Company changed its financial year end date from 31 March to 31 December in order to cope with the financial year end date of its principal revenue generating associate. The consolidated financial statements for the corresponding amounts cover a 9-month period from 1 April 2004 to 31 December 2004 and therefore may not be comparable with amounts for the current year.

2. **APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS**

In the current year, 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 Hong Kong Institute of Certified Public Accountants that are effective for accounting years 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 consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Share-based payments

In the current year, 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"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to Directors and employees of the Group, 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. No share options were granted on or after 1 January 2005 and the Group's share options granted before 7 November 2002 were vested immediately and were expired during the period ended 31 December 2004. The Group had applied the transitional provision of HKFRS 2. Hence, no prior period adjustment has been required and there is no effect on the consolidated financial statements in both years.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" ("HKAS 32") and HKAS 39 "Financial Instruments: Recognition and Measurement" ("HKAS 39"). HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting period. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Equity securities previously accounted for under the benchmark treatment of SSAP 24

Prior to 1 January 2005, the Group classified and measured its investments in equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its investments in equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. On 1 January 2005, the Group classified and measured its investments in equity securities in accordance with the transitional provisions of HKAS 39. As a result, "investments in securities" amounted to HK$12,000 has been classified as "investments held for trading" on 1 January 2005. However, there has been no material effect on how the results for the current accounting period as prepared and presented.

Financial assets and financial liabilities other than equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than investment in equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liablities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

The Group has not early applied the following new standards, amendments and interpretations ("INTS") that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these new standards, amendments or INTS will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]

HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment [3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

[1] Effective for annual periods beginning on or after 1 January 2007.

[2] Effective for annual periods beginning on or after 1 January 2006.

[3] Effective for annual periods beginning on or after 1 December 2005.

[4] Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair values.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to each of the balance sheet date.

The results of subsidiaries acquired or disposed of during the year/period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in associates

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before I January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition. Goodwill arising on acquisitions prior to 1 January 2005 continues to be held in reserve, and will be charged to the retained earnings at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates become impaired.

For the purposes of impairment testing, goodwill arising from an acquisition of the subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisiton of a subsidiary or an associate for which an agreement date is on or after 1 April 2004 represents the excess of the net fair value of an acquiree's indentifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss. A discount on acquisition arising on an acquisition of an associate (which is accunted for using the equity method) is included as income in the determination of the investor's share of results of the associate in the period in which the investment is acquired.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discount.

All transactions in securities trading are recorded on a trade date basis.

Commission and brokerage income are recognised when the services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimate future cash receipts throught the expected life of the financial assets to that asset's net carrying amount.

Advisory fee income is recognised when the service is provided.

Fixed assets

Fixed assets are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	20% - 33⅓%
Computer equipment	20% - 50%
Furniture and fixtures	20% - 40%
Motor vehicles	20% - 30%

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible assets

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of loans and receivables are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including bank balances, deposits, accounts receivable, loans receivable and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities include accounts payable and other payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment (other than goodwill)

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 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 loss is recognised as an expense immediately.

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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items of income or expense that are never taxable and deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year/period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year/period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year/period, unless exchange rates fluctuate significantly during the year/period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the currency translation reserve). Such exchange differences are recognised in profit or loss in the year/period in which the foreign operation is disposed of.

Retirement benefits costs

Payments to the defined contribution retirement benefits scheme are charged as an expense as they fall due.

4. **KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Group's accounting policies which are described in note 3, the management has made the following estimates that have significant effect on the amounts recognised in the consolidated financial statements. The key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Income taxes

No deferred tax asset was recognised in the Group's consolidated balance sheet in relation to the unused tax losses of approximately HK$33,872,000. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more than expected, further recognition of deferred tax asset in relation to unutilised tax losses may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

Written back for bad and doubtful debts

The policy for written back or allowance for bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client and the estimation of the future cash flow discounted at the original effective rate to calculate the present value. If the financial conditions of client of the Group were not as good as expected by the Group, additional impairment may be required.

5. **REVENUE**

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Commission and brokerage	28,768	24,805
Interest income from:		
Clients	3,452	3,227
Authorised institutions	1,294	96
Others	15	13
Advisory fee income	1,640	1,612
	35,169	29,753

6. **BUSINESS AND GEOGRAPHIC SEGMENTS**

Business segments

For management purposes, the Group is currently organised into two operating divisions, namely, broking and securities margin financing. These divisions are the basis on which the Group reports its primary segment information. The principal activities of these divisions are as follows:

Broking — provision of stockbroking, futures and options broking and mutual funds as well as insurance-linked investment plans and products broking

Securities margin financing — provision of securities margin financing

Segment information about these businesses is presented below:

Consolidated income statement for the year ended 31 December 2005

	Broking	**Securities margin financing**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
Segment revenue	31,168	2,246	1,755	35,169
RESULTS				
Segment profit	1,200	3,685	333	5,218
Unallocated expenses				(847)
Share of results of an associate				9,669
Profit before taxation				14,040
Taxation				(35)
Profit for the year				14,005

Consolidated income statement for the period from 1 April 2004 to 31 December 2004

	Broking	**Securities margin financing**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE				
Segment revenue	26,245	1,702	1,806	29,753
RESULTS				
Segment loss	(803)	(175)	(54)	(1,032)
Unallocated expenses				(580)
Discount on acquisition of an associate				41,728
Share of results of an associate				5,321
Profit before taxation				45,437
Taxation				(58)
Profit for the period				45,379

Geographical segments

All of the activities of the Group are based in Hong Kong and all of the Group's revenue and profit before taxation are derived from Hong Kong. In addition, the Group's assets are located in Hong Kong.

7. **FINANCE COSTS**

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years:		
Bank overdrafts	**1**	8
Finance leases	**—**	1
Other bank borrowings	**19**	—
	20	9

8. **PROFIT BEFORE TAXATION**

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	**1,107**	558
Contributions to retirement benefits scheme (included in staff costs)	**383**	292
Loss from error trades	**13**	39
Operating lease rentals in respect of rented premises	**4,364**	3,153
Net realised and unrealised (gain) loss on investment held for trading/trading securities	**(1)**	12
Share of tax of an associate (included in share of results of an associate)	**(1,262)**	(28)

9. **TAXATION**

The taxation charge represents the underprovision of Hong Kong Profit Tax for the year/period.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as there are no assessable profits arising in Hong Kong or the assessable profits were wholly absorbed by estimated tax losses brought forward.

The taxation for the year/period can be reconciled to the profit before taxation per the consolidated income statement as follows:

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Profit before taxation	**14,040**	45,437
Taxation charge at domestic income tax rate of 17.5%	**(2,457)**	(7,951)
Tax effect of share of results of an associate	**1,464**	931
Tax effect of income not taxable for tax purpose	**736**	7,310
Tax effect of estimated tax losses not recognised	**(517)**	(986)
Underprovision in prior years	**(35)**	(58)
Tax effect of expenses not deductible for tax purpose	**(10)**	(146)
Tax effect of utilisation of estimated tax loss previously not recognised	**929**	917
Others	**(145)**	(75)
Taxation for the year/period	**(35)**	(58)

At 31 December 2005, the Group had unused estimated tax losses of approximately HK$33,872,000 (2004: HK$36,228,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

10. EARNINGS PER SHARE

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

	1.1.2005 to 31.12.2005	1.4.2004 to 31.12.2004
	HK$'000	*HK$'000*
Profit attributable to the equity holders of the Company for the purposes of basic earnings per share	**13,845**	45,684
	Number of shares	
	'000	*'000*
Number of ordinary shares for the purpose of basic earnings per share	**460,000**	460,000

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Results

During the year ended on 31 December 2005, the total revenue for the Group was approximately HK$35,169,000 (nine months ended 31 December 2004: HK$29,753,000). Profit attributable to shareholders was approximately HK$13,845,000 (nine months ended 31 December 2004: HK$45,684,000).

Market Overview

The market was locked in a tight trading range for the most period of the year whereas the activities were mainly dominated by derivative-linked trading. Genuine activities from retail investors were limited due to lack of direction but gradually improved in the last quarter of the year as they were encouraged by the strong rally in major overseas stock markets. The investment confidence and interests were rekindled by the successful listing and the superb post listing performance of the sizeable new shares. Public response to the new shares was enthusiastic and subscriptions in some issues have locked up hundreds billions of dollars in the capital market. The long-awaited share reforms of A-Shares had finally started and the initial feedback was positive. These induced a series of corporate activities on the related H-Shares including privatization of some H-Shares and triggered another round of shopping for the H-Shares. Coupled with the renewed speculation on RMB appreciation, more funds were attracted to Hong Kong to chase the bank and insurance stocks. In February of 2006, the HIS Services Limited announced its revolutionary change of preparing to accept H-shares conditionally as the constituent stocks for its Hang Seng Index calculation in its next review after six months. The sentiment on H-Shares was further heat up. Many funds have to increase their weightings in those potential target H shares to meet the future possible change of the constituent stocks of the Hang Seng Index. Prices of these stocks went up by more than 50% in a short period of time since October 2005. 2005 also represented a year of resource commodities in which prices of all major resources commodities including oil, metal and precious metals shot up tremendously amid the strong demand from the persistent global economy growth. Crude oil price breached US$70 per barrels. Gold price made a 25 year-high of over US$600 per oz. Other metal prices continued to hit record highs. The strong performance in various commodities markets underpinned the investments in the resources stocks which all recorded impressive price appreciation and maintained an irrevocable upward movement. The successful listing of Link REITS in Hong Kong stock market marked a milestone of introducing a new type of listing securities and helped to attract additional sources of funds to invest in property business backed with high dividend payout. Likewise, it also helped to provide an additional fund raising vehicle for those property companies and have boosted up the investment interests in property counters. More REITS are expected to be listed in future. Yet, most of other local stocks remained stagnant and were generally ignored by the investors. Hang Seng Index registered a paltry gain of 4.54% to 14,876 and was the poorest performer among the major Asian markets. On the other hand, H-Index increased substantially by 12.4% to 5,330 after successive new highs. The up-trend extended to the first quarter of 2006 and continued to hit a record high at 6,700 level. Turnover of H-shares also escalated rapidly and in some days closely matched that of the blue chips.

The whole broker industry benefited from the sharp improvement of overall market activities. Hong Kong topped the most active derivative trading market among the major international stock markets. The daily trading of warrants in the active days took about 20% of the total market volume. Coupled with the related cash hedging, total turnover of the market rose by 13.9% to a new record of HK$4,498 billion for

2005. Nevertheless, the Group A brokers still dominated the market and took the lion share of the volume. In fact, they played an important role in dictating the directions. The Stock Exchange of Hong Kong Limited (the "Stock Exchange") decided to implement its second and third stages of further narrowing the price spreads of the small price counters. Such narrow price spreads might curtail the day-trade activities of small investors with limited capital. Meanwhile, the Securities and Futures Commission of Hong Kong proceeded with the proposal of capping the securities collateral re-pledging limits at 180% and eventually to 140% after a period of 12 months. The new rules theoretically aimed at shaping a healthy development for the industry but it will inevitably increase the capital requirements of the broker operators and naturally their interest burden. The return on investment in the industry looks less attractive as compared to the increasing risk liability. When the market suffers correction in volume, we would see the continued withdrawal of more marginal operators and further consolidation of the industry.

The positive factors for 2005 are likely to extend to 2006. The global economic recovery remains intact. In particular, Japan jumps out from the prolonged slump and adds additional growth momentum to the global economy. The speculation on RMB is not cooling down and continues to attract inflow of hot money into the domestic economy. Neither will China slow down to liberalize its financial policy by encouraging more outflows of funds to reduce the surplus balance of payment. A series of measures has been initiated to allow more insurance companies to invest overseas and the scheme of QDII (Qualified Domestic Institutional Investor) is also gradually carried out. In any case, the liquidity in the domestic capital market remains abundant and that enables the domestic interest rate to resist further upward pressure. H-Shares and China related counters are still the focus of investment. H-Shares hit successive historic records and the respective turnover also increased impressively. The growing dominance of H-shares was well accepted by the market and its surpassing over localized blue chips appeared to be a matter of time. In view of the bullish investment sentiment, more listings of new issues are in the pipeline. China Industrial and Commercial Bank and Bank of China representing the biggest ones in the fund raising amount, shall draw the greatest attention. Most likely it will bring another climax to the equity market. It is expected that the stock market for 2006 will continue to be active but may become more volatile as the movement is now being exaggerated by the leverage effects of active relevant derivative trading.

Securities, Futures and options brokerage Business

During the year, revenue for the Group's securities broking business and futures broking business as well as the underwriting commission, which accounted for 42.4% of total operating revenue, was HK$14,910,000 (nine months ended 31 December 2004: HK$12,299,000). Profit for the division was 914,000 (nine months ended 31 December 2004: loss of HK$2,860,000). The division turned around to profit mainly attributing to the improvement of overall market turnover in the last quarter of 2005 and written back of bad and doubtful debts of approximately HK$1,458,000. As the active market situation carried forward to 2006, performance is expected to achieve further significant growth in the coming year. Nonetheless, the market conditions remain tough especially in facing the very fierce competitions from the banks.

Securities Margin Financing

During the year, interest income generated from securities margin loan portfolio accounted for 6.39% of the Group's revenue was to HK$2,246,000 (nine months ended 31 December 2004: HK$1,702,000). Profit for this division reached HK$3,685,000 (nine months ended 31 December 2004: loss of HK$175,000). Profit was mainly contributed by the written back of bad and doubtful debts of approximately HK$3,313,000 and profit registered gains in line with the increase of the trading activities of the clients. The Group maintained consistently prudent and flexible margin financing policy to minimize its risk exposure in the volatile market environment in order to achieve high profitability for our shareholders.

Financial Management and Advisory Services

Revenue generated from financial management and advisory services was HK$16,258,000 for the year (nine months ended 31 December 2004: HK$ 13,946,000). Because of the stagnant global equity markets in the first half as well as fierce competitions from new competitors, the division faced new challenges during the year. In order to remain competitive, the Group, through the launch of TV advertisement and re-development of its websites, has taken steps to strengthen the corporate image and widen our product awareness to our target investors. At the same time, the division extends its service platform to new asset management business and MPF business in order to satisfy various clients' needs. In the coming years, the division will expand its consultant teams and explore the Greater China market in order to consolidate its leading position within the industry.

Investment Banking

Operating revenue generated by the investment banking business was HK$1,640,000 this year (nine months ended 31 December 2004: HK$1,371,000). Profit for the division were HK$324,000 (nine months ended 31 December 2004: loss of HK$619,000). The growth in revenue can be attributed to the recovery of the Hong Kong financial market and the consequent rise in demand for investment banking services from both public and private companies. During the year, the division secured a number of financial advisory mandates to provide corporate finance advisory services to both listed and unlisted companies. In addition, the division has also acted as financial adviser or independent financial adviser to several disclosable transactions executed by listed Hong Kong companies. With the stable recovery of the Hong Kong market, as well as the positive prospects emerging from the PRC, the division will take advantage of these opportunities by continuing to position itself as a premier boutique investment bank and offer tailor-made and cost effective services to our corporate clients.

Material Acquisitions and Disposals of Associate Companies

On 7 April 2006, Surewin Management Limited ("Surewin"), the wholly-owned subsidiary of the Company and Holley International (Hong Kong) Limited ("Holley") entered into a joint venture agreement to invest in Oriental Victor Limited of 50% interest. This joint venture company is in the process to obtain 30% interest in the exploration and production rights of oil in and throughout the Oil Field in Egypt (the "Oil Field") and expects to possess of the concession rights of the Oil Field by the Egyptian Government around May 2006. Upon having obtained 30% interest in the exploration and production rights of oil in and throughout the Oil Field, Surewin will beneficially own 15% net effective interest in the exploration and production rights in relation to the Oil Field. In order to fulfill part of the capital commitment for participating in the exploration and production of the oil field in Egypt, Surewin is required to contribute approximately US$7,000,000 (approximately HK$54,600,000) by way of shareholder's loan in stages according to the budgets of the Oil Field.

In order to finance the shareholder's loan, the Company has on 13 April 2006 entered into the placing agreement to issue 17,000,000 new shares of the Company at HK$1.73 each and grant the option to subscribe for the option shares of up to an aggregate of 17,000,000 shares of the Company at the exercise price of HK$1.85 each during the option period of one year.

Holley, the strategic partner of the joint venture company, is a wholly-owned subsidiary of Holley Industry Group Company Limited ("Holley Group"). Holley Group is a private enterprise in PRC with diversified international business and Holley Group recorded a total sales of RMB11,000 million in the year 2005. With the international network and resources of Holley and same intention to further the business in the oil industry, we believe that we are in a better position to further our business in the oil industry in the future. The investment in the joint venture company can provide an opportunity for the Group to expand its business and diversify the Group's current business and broaden its earning base in the long run.

Apart from this, there was no material acquisition and disposal of companies during the year.

FINAL DIVIDEND

The Board does not recommend the payment of any final dividend for year ended 31 December 2005 (nine months ended 31 December 2004: Nil).

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the financial year 2005, except that the Chairman and the Managing Director who are appointed for a term of 3 years respectively are not subject to rotation or taken into account in determining the number of directors to retire in each annual general meeting in accordance with the Bye-Laws of the Company. This constitutes a deviation from code provision A.4.2. of the Code. As continuation is a key factor to the successful implementation of any long-term 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.

During the financial year, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct for securities transactions by the Directors of the Company. Based on specific enquiry of the Directors of the Company, all Directors have complied with the required standard as set out in the Mode Code throughout the year ended 31 December 2005.

Throughout the accounting period covered by this announcement, the Company has complied with the minimum requirements of the Listing Rules relating to the appointment of at least 3 Independent Non-Executive Directors and one of which have appropriate professional qualifications or accounting or related financial management expertise.

The Audit Committee of the Company has reviewed the accounting principles and practices adopted by the Group and the audited consolidated results for the year ended 31 December 2005 of the Group. The Audit Committee is composed of 3 Independent Non-Executive Directors of the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 25 May 2006 to 1 June 2006, both days inclusive, during the period no transfer will be effected. The Company's branch share registrar and transfer office in Hong Kong located at 26 Floor, Tresbury Centre, 28 Queen's Road East, Hong Kong.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2005 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagement or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu as set out in the preliminary announcement.

PUBLICATION OF 2005 ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The 2005 Annual Report of the Company containing all the information required by the Listing Rules will be published on the website of the Stock Exchange in due course.

On behalf of the Board
Karl Thomson Holdings Limited
Lam Kwok Hing
Chairman

Hong Kong, 25 April 2006

* *For identification only*

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

Please also refer to the published version of this announcement in China Daily.