# 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 2008 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 2008 are as follows:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2008*

| | NOTES | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Revenue | 6 | **48,004** | 90,500 |
| Other income | | **4,591** | 4,600 |
| (Allowance for) write back of allowance for bad and doubtful debts | | **(1,339)** | 284 |
| Amortisation of trading rights | | **(6)** | (6) |
| Depreciation | | **(461)** | (465) |
| Finance costs | 8 | **(1,125)** | (912) |
| Other expenses | | **(42,602)** | (50,853) |
| Staff costs, including the Directors' remuneration | | **(13,646)** | (18,400) |
| Impairment loss on exploration and evaluation assets | | **(27,377)** | — |
| Share of profit of an associate | | **11,195** | 7,216 |
| Share of profit of a jointly controlled entity | | **—** | 545 |
| (Loss) profit before taxation | | **(22,766)** | 32,509 |
| Taxation charge | 9 | **(1,264)** | (3,527) |
| (Loss) profit for the year | 10 | **(24,030)** | 28,982 |
| Attributable to: | | | |
| Equity holders of the Company | | **(15,261)** | 28,891 |
| Minority interests | | **(8,769)** | 91 |
| | | **(24,030)** | 28,982 |
| (Loss) earnings per share | 11 | | |
| Basic | | **HK(2.57) cents** | HK5.75 cents |
| Diluted | | **—** | HK5.45 cents |

* *For identification purpose only*

**CONSOLIDATED BALANCE SHEET**

*At 31 December 2008*

| | NOTES | **2008** | 2007 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **NON-CURRENT ASSETS** | | | |
| Fixed assets | | **748** | 968 |
| Trading rights | | **5** | 11 |
| Exploration and evaluation assets | | **290,182** | 345,371 |
| Interest in an associate | | **151,147** | 135,356 |
| Statutory deposits | | **4,075** | 4,150 |
| Loans receivable | | **792** | 930 |
| | | **446,949** | 486,786 |
| **CURRENT ASSETS** | | | |
| Accounts receivable | 12 | **32,321** | 89,056 |
| Loans receivable | | **545** | 876 |
| Other receivables, prepayments and deposits | | **9,982** | 3,061 |
| Tax recoverable | | **1,159** | 257 |
| Pledged fixed deposits (general accounts) | | **16,594** | 63,141 |
| Bank balances (trust and segregated accounts) | | **81,750** | 100,994 |
| Bank balances (general accounts) and cash | | **38,016** | 42,264 |
| | | **180,367** | 299,649 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable | 13 | **93,593** | 136,459 |
| Other payables and accrued expenses | | **8,646** | 19,697 |
| Other loans | | **399** | 5,594 |
| Amount due to a joint venturer | | **4,960** | 23,174 |
| Amounts due to directors | | **11,430** | 21,536 |
| Tax payable | | **—** | 3,245 |
| | | **119,028** | 209,705 |
| **NET CURRENT ASSETS** | | **61,339** | 89,944 |
| | | **508,288** | 576,730 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **59,356** | 59,356 |
| Reserves | | **390,537** | 436,233 |
| Equity attributable to equity holders of the Company | | **449,893** | 495,589 |
| Minority interests | | **58,395** | 81,141 |
| Total equity | | **508,288** | 576,730 |

*Notes:*

## 1. GENERAL

The Company is an exempted company incorporated under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is J&A Investment Limited, which is incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed on pages 2 to 3 of the Annual Report.

The Company is an investment holding company. The principal activities of the Group are the provision of financial services and oil and gas exploration and production. The financial services include stockbroking, futures and options broking, mutual funds and insurance-linked investment plans and products broking, securities margin financing and provision of corporate finance advisory services. The oil and gas exploration and production are developed through the wholly owned subsidiary, KT Energy. Particulars of the principal subsidiaries of the Company are set out in note 34.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company and most of its subsidiaries.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("New HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

| | |
|---|---|
| HKAS 39 & HKFRS 7 (Amendments) | Reclassification of financial assets |
| HK (IFRIC) - INT 11 | HKFRS 2: Group and treasury share transactions |
| HK (IFRIC) - INT 12 | Service concession arrangements |
| HK (IFRIC) - INT 14 | HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction |

The adoption of the New HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of financial statements[2] |
| HKAS 23 (Revised) | Borrowing costs[2] |
| HKAS 27 (Revised) | Consolidated and separate financial statements[3] |

| | |
|---|---|
| HKAS 32 & 1 (Amendments) | Puttable financial instruments and obligations arising on liquidation[2] |
| HKAS 39 (Amendment) | Eligible hedged items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an investment in a subsidiary, jointly controlled entity or associate[2] |
| HKFRS 2 (Amendment) | Vesting conditions and cancellations[2] |
| HKFRS 3 (Revised) | Business combinations[3] |
| HKFRS 7 (Amendment) | Improving disclosures about financial instruments[2] |
| HKFRS 8 | Operating segments[2] |
| HK (IFRIC) - INT 9 & HKAS 39 (Amendments) | Embedded derivatives[4] |
| HK (IFRIC) - INT 13 | Customer loyalty programmes[5] |
| HK (IFRIC) - INT 15 | Agreements for the construction of real estate[2] |
| HK (IFRIC) - INT 16 | Hedges of a net investment in a foreign operation[6] |
| HK (IFRIC) - INT 17 | Distributions of non-cash assets to owners[3] |
| HK (IFRIC) - INT 18 | Transfers of assets from customers[7] |

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

2 Effective for annual periods beginning on or after 1 January 2009.

3 Effective for annual periods beginning on or after 1 July 2009.

4 Effective for annual periods ending on or after 30 June 2009.

5 Effective for annual periods beginning on or after 1 July 2008.

6 Effective for annual periods beginning on or after 1 October 2008.

7 Effective for transfers on or after 1 July 2009.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The Directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. 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.

## 4. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, management has made the following estimate that has a 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, is discussed below.

**Impairment of exploration and evaluation assets**

Exploration and evaluation assets are assessed for impairment annually. The Group determined whether oil concession rights are impaired requires an estimation of the recoverable amount of the assets. The Group relied on the expert to assess the geological prospects for the discovery of oil and gas in the oil field and estimated the value of oil and gas produced in the future at a suitable discount rate in order to calculate the present value. For the drilling cost and other exploration and evaluation assets, the Group determined whether the related well costs are expensed if it is determined that such economic viability is not attained after performing further feasibility studies that is usually completed within one year of completion of drilling. During the year ended 31 December 2008, an impairment loss of approximately HK$27,377,000 (2007: nil) was provided on exploration and evaluation assets. The Group's carrying value of exploration and evaluation assets as at 31 December 2008 was approximately HK$290,182,000 (2007:HK$345,371,000).

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the equity balance. The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, accumulated profits and other reserves.

The Directors of the Company review the capital structure on a continuous basis. As part of this review, the Directors consider the cost of capital and the risks associated with capital. The Group will balance its overall capital structure through the payment of dividends, issuance of new shares as well as the issue of new debts or the redemption of existing debts. The Group's overall strategy remains unchanged from prior year.

## 6. REVENUE

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Commission and brokerage income | **42,303** | 78,784 |
| Interest income from: | | |
| Clients | **3,611** | 5,674 |
| Authorised institutions | **752** | 3,765 |
| Others | **83** | 112 |
| Advisory fee income | **1,255** | 2,165 |
| | **48,004** | 90,500 |

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into three operating divisions, namely, broking, securities margin financing, and oil and gas segment. 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. |
| Oil and gas | — | exploration and production of oil and gas. |

Segment information about these businesses is presented below:

Consolidated income statement for the year ended 31 December 2008

| | Broking | Securities margin financing | Oil and gas | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **REVENUE** | | | | |
| Segment revenue | **44,544** | **2,065** | **—** | **46,609** |
| Unallocated | | | | **1,395** |
| | | | | **48,004** |
| **RESULTS** | | | | |
| Segment (loss) profit | **(1,353)** | **1,031** | **(31,742)** | **(32,064)** |
| Unallocated expenses | | | | **(1,897)** |
| Share of profit of an associate | | | | **11,195** |
| Loss before taxation | | | | **(22,766)** |
| Taxation charge | | | | **(1,264)** |
| Loss for the year | | | | **(24,030)** |

Consolidated balance sheet as at 31 December 2008

| | Broking | Securities margin financing | Oil and gas | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **ASSETS** | | | | |
| Segment assets | **99,443** | **19,847** | **297,481** | **416,771** |
| Interest in an associate | | | | **151,147** |
| Other unallocated assets | | | | **1,337** |
| Unallocated corporate assets | | | | **58,061** |
| Consolidated total assets | | | | **627,316** |
| **LIABILITIES** | | | | |
| Segment liabilities | **96,272** | **1,990** | **6,700** | **104,962** |
| Amounts due to directors | | | | **11,430** |
| Unallocated corporate liabilities | | | | **2,636** |
| Consolidated total liabilities | | | | **119,028** |

Other information for the year ended 31 December 2008

| | Broking | Securities margin financing | Oil and gas | Unallocated | Consolidated |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Additions to fixed assets | **274** | **—** | **—** | **—** | **274** |
| Additions to exploration and evaluation assets | **—** | **—** | **25,318** | **—** | **25,318** |
| Impairment loss on exploration and evaluation assets | **—** | **—** | **27,377** | **—** | **27,377** |
| Amortisation of trading rights | **6** | **—** | **—** | **—** | **6** |
| Depreciation | **444** | **—** | **—** | **17** | **461** |
| Allowance for bad and doubtful debts | **673** | **566** | **—** | **100** | **1,339** |

Consolidated income statement for the year ended 31 December 2007

| | Broking | Securities margin financing | Oil and gas | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **REVENUE** | | | | |
| Segment revenue | 83,962 | 3,521 | — | 87,483 |
| Unallocated | | | | 3,017 |
| | | | | 90,500 |
| **RESULTS** | | | | |
| Segment profit (loss) | 30,233 | 2,942 | (4,669) | 28,506 |
| Unallocated expenses | | | | (3,758) |
| Share of profit of an associate | | | | 7,216 |
| Share of profit of a jointly controlled entity | | | | 545 |
| Profit before taxation | | | | 32,509 |
| Taxation charge | | | | (3,527) |
| Profit for the year | | | | 28,982 |

Consolidated balance sheet as at 31 December 2007

| | Broking | Securities margin financing | Oil and gas | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **ASSETS** | | | | |
| Segment assets | 158,623 | 35,513 | 345,895 | 540,031 |
| Interest in an associate | | | | 135,356 |
| Other unallocated assets | | | | 1,806 |
| Unallocated corporate assets | | | | 109,242 |
| Consolidated total assets | | | | 786,435 |
| **LIABILITIES** | | | | |
| Segment liabilities | 144,647 | 4,226 | 31,971 | 180,844 |
| Amounts due to directors | | | | 21,536 |
| Unallocated corporate liabilities | | | | 7,325 |
| Consolidated total liabilities | | | | 209,705 |

Other information for the year ended 31 December 2007

| | Broking | Securities margin financing | Oil and gas | Unallocated | Consolidated |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Additions to fixed assets | 500 | — | — | 7 | 507 |
| Additions to exploration and evaluation assets | — | — | 338,308 | — | 338,308 |
| Amortisation of trading rights | 6 | — | — | — | 6 |
| Depreciation | 419 | — | — | 46 | 465 |
| Write back of allowance for bad and doubtful debts | 272 | 12 | — | — | 284 |

**Geographical segments**

All of the activities of the broking and securities margin financing segments are based in Hong Kong and all of the Group's revenue is derived from Hong Kong. All of the activities of oil and gas segment are based in Egypt.

The following is an analysis of the carrying amount of segment assets and additions to fixed assets and exploration and evaluation assets:

| | **Carrying amounts of segment assets** | | **Additions to fixed assets and exploration and evaluation assets** | |
|---|---|---|---|---|
| | **At 31 December 2008** | At 31 December 2007 | **Year ended 31 December 2008** | Year ended 31 December 2007 |
| | ***HK\$'000*** | *HK\$'000* | ***HK\$'000*** | *HK\$'000* |
| Hong Kong | **119,290** | 194,136 | **274** | 507 |
| Egypt | **297,481** | 345,895 | **25,318** | 338,308 |
| | **416,771** | 540,031 | **25,592** | 338,815 |

## 8. FINANCE COSTS

| | **2008** | 2007 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| Interest on borrowings wholly repayable within five years: | | |
| Bank borrowings | **166** | 267 |
| Amounts due to directors | **453** | 142 |
| Other loans | **506** | 503 |
| | **1,125** | 912 |

## 9. TAXATION CHARGE

| | **2008** | 2007 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| Current tax: | | |
| Hong Kong Profits Tax | **—** | 3,447 |
| Underprovision of Hong Kong Profits Tax in prior years | **1,264** | — |
| | **1,264** | 3,447 |
| Deferred tax | **—** | 80 |
| | **1,264** | 3,527 |

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) for the year.

No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2008 as the Group has no assessable profit for the year.

No provision for profits tax is made in other jurisdictions as the subsidiaries operating in other jurisdictions have no assessable profits for the year.

The amount of underprovision of Hong Kong Profits Tax in respect of prior years of HK$1,264,000 represented the tax charge resulting from the utilisation of tax losses claimed in prior years being not approved by the Hong Kong Inland Revenue Department.

The taxation charge for the year can be reconciled to the (loss) profit before taxation per the consolidated income statement as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) profit before taxation | **(22,766)** | 32,509 |
| Taxation charge at the Hong Kong Profits Tax rate of 16.5% (2007:17.5%) | **(3,756)** | 5,689 |
| Tax effect of share of profit of an associate | **(1,847)** | (1,263) |
| Tax effect of share of profit of a jointly controlled entity | **—** | (95) |
| Tax effect of income not taxable for tax purpose | **(155)** | (826) |
| Tax effect of estimated tax losses not recognised | **533** | 386 |
| Underprovision in prior years | **1,264** | — |
| Tax effect of expenses not deductible for tax purpose | **874** | 1,098 |
| Tax effect of deductible temporary differences not recognised | **4,517** | — |
| Tax effect of utilisation of tax loss previously not recognised | **(166)** | (1,462) |
| Taxation for the year | **1,264** | 3,527 |

## 10. (LOSS) PROFIT FOR THE YEAR

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) profit for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **1,300** | 1,500 |
| Contributions to retirement benefits schemes (included in staff costs) | **511** | 576 |
| Loss from error trades | **75** | 178 |
| Loss on disposal of fixed assets | **33** | — |
| Share of tax of an associate (included in share of profit of an associate) | **384** | 343 |
| Interest income on bank deposits (included in other income) | **(665)** | (533) |
| Net foreign exchange loss | **5,186** | 975 |

## 11. (LOSS) EARNINGS PER SHARE

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) profit attributable to the equity holders of the Company for the purposes of basic and diluted earnings per share | **(15,261)** | 28,891 |

| | **Number of shares** | |
|---|---|---|
| | **'000** | '000 |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | **593,562** | 502,037 |
| Effect of dilutive ordinary shares arising from placing options | | 2,310 |
| Effect of dilutive ordinary shares arising from redeemable convertible preference shares | | 25,363 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | | 529,710 |

No diluted loss per share was presented for the year ended 31 December 2008 as there were no potential ordinary shares during the current year.

## 12. ACCOUNTS RECEIVABLE

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Accounts receivable comprise of:** | | |
| Accounts receivable arising from the business of dealing in securities: | | |
| – Cash clients | **9,577** | 23,438 |
| Less: Allowance for doubtful debts | **(795)** | (278) |
| | **8,782** | 23,160 |
| – HKSCC | **—** | 28,054 |
| Accounts receivable from HKFECC arising from the business of dealing in futures contracts | **7,013** | 8,154 |
| Loans to securities margin clients | **16,337** | 29,478 |
| Less: Allowance for doubtful debts | **(561)** | — |
| | **15,776** | 29,478 |
| Accounts receivable arising from the business of providing corporate advisory services | **750** | 210 |
| | **32,321** | 89,056 |

The settlement terms of accounts receivable from cash clients, HKSCC and HKFECC are usually one to two days after the trade date. Except for the accounts receivable from cash clients as mentioned below, the accounts receivable from HKSCC and HKFECC aged within 30 days.

Loans to securities margin clients are repayable on demand and bear interest at Hong Kong Prime Rate quoted by Wing Hang Bank plus 3% ranging from 8.25% to 9.25% (2007: 10% to 10.25%) per annum. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value. The loans are secured by pledged marketable securities at fair value of approximately HK$65,268,000 (2007: HK$163,071,000). The Group is permitted to sell or repledge the marketable securities if the customer default the payment as requested by the Group.

The Group does not provide any credit term to its corporate advisory service clients and cash clients. The aged analysis of accounts receivable arising from these clients is as follows:

**Accounts receivable from corporate advisory service clients**

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **200** | 110 |
| 91 to 180 days | **200** | 100 |
| Over 180 days | **350** | — |
| | **750** | 210 |

**Accounts receivable from cash clients**

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 90 days | **8,119** | 21,442 |
| 91 to 180 days | **663** | 1,718 |
| | **8,782** | 23,160 |

The amounts receivable with a carrying amount of approximately HK$6,664,000 (2007: HK$19,708,000) are past due but not impaired at the reporting date. In the opinion of the Directors, no significant accounts receivable from corporate advisory service clients and cash clients are impaired at 31 December 2008 and 2007.

**Movement in the allowance for doubtful debts of cash clients**

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **278** | 1,612 |
| Impairment losses recognised on receivables | **673** | 3 |
| Amounts written off as uncollectible | **(156)** | (1,062) |
| Amounts recovered during the year | **—** | (275) |
| Balance at end of the year | **795** | 278 |

**Movement in the allowance for doubtful debts of margin clients**

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **—** | 12,187 |
| Impairment losses recognised on receivables | **566** | — |
| Amounts written off as uncollectible | **(5)** | (12,175) |
| Amounts recovered during the year | **—** | (12) |
| Balance at end of the year | **561** | — |

**Movement in the allowance for doubtful debts of corporate advisory service clients**

| | **2008** | 2007 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Balance at beginning of the year | **—** | — |
| Impairment losses recognised on receivables | **100** | — |
| Amounts written off as uncollectible | **(100)** | — |
| Balance at end of the year | **—** | — |

Included in the allowance for doubtful debts of margin clients are individually impaired accounts receivable due from clients who have been in severe financial difficulties. The amount was arrived after considering the proceeds from disposal of respective pledged marketable securities held by the Group. The allowance would be written off as uncollectible if the amounts are not recovered in the subsequent year.

In determining the recoverability of the accounts receivable, the Group considers any change in the credit quality of the accounts receivable from the date credit was initially granted, subsequent settlement and the fair value of pledged marketable securities up to the reporting date. In the opinion of the Directors there is no further credit provision required in excess of the existing allowance for doubtful debtors.

## 13. ACCOUNTS PAYABLE

| | 2008 | 2007 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Accounts payable arising from the business of dealing in securities: | | |
| – Cash clients | **73,870** | 116,269 |
| – HKSCC | **4,628** | — |
| Accounts payable to clients arising from the business of dealing in futures contracts | **13,105** | 15,964 |
| Amounts due to securities margin clients | **1,990** | 4,226 |
| | **93,593** | 136,459 |

The settlement term of accounts payable to cash clients and HKSCC is two days after the trade date and aged within 30 days.

Accounts payable to clients arising from the business of dealing in futures contracts are margin deposits received from clients for their tradings of futures contracts on the HKFECC. The excess of the outstanding amounts over the required margin deposits stipulated by the HKFECC are repayable to clients on demand. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

Amounts due to securities margin clients are repayable on demand. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

The accounts payable amounting to approximately HK$81,750,000 (2007: HK$100,994,000) were payable to clients or other institutions in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

## MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS

During the year ended 31 December 2008, the total revenue for the Group was approximately HK$48,004,000 (2007: HK$90,500,000) and loss attributable to shareholders was approximately HK$15,261,000 (2007: profit of approximately HK$28,891,000). The core financial business suffered setback in view of the current bearish market sentiment ahead of the anticipated greatest global economic depression since World War II.

## MARKET OVERVIEW

2008 was filled with tears of investors as the whole year suffered from endless, decisive, panic and desperate selling and consequently sharp asset meltdown in the investment market. The Subprime Crisis was exacerbating to a full scale of Financial Tsunami with the destructive scale not less than the Great Depression in 1929 as a result of misjudgment and mistreatment of the crisis by the government of developed countries, typically that of USA. The Lehman Brother Group was left bankrupt shocking the whole world. The capital market was suddenly warned of the counterpart default risks and the credit trust among the institutions almost cracked down. Inter-bank rates shot up rapidly dampening the whole global economy and officially sending it to deep recession. Throughout the whole year, investors were continuously bombarded with tons of bad news including the property market slide, rising mortgage and financial defaults, huge loss and write-off of financial institutions, bankruptcies, deteriorating unemployment rates and even bank runs. The liquidation drives of risk-aversion, deleveraging needs, fund redemption, credit crunch and forced margin sell were chasing each other, causing rounds and rounds of selling. There were very few and weak technical rebounds which were usually short-lived and soon encountered with greater selling. The equity market was under the immediate pressure but dumping soon spilled over to commodities and currency market. Commodities registered fast correction of over 50% whilst high yield currency were sold down by more than 20% in a very short period of time on aggressive Yen carry trade likely due to the abrupt credit crunch in the capital market. The volatile movement of investment products caused substantial loss of all investors in both currencies and commodities. The flooding of derivative positions exaggerated these loss figures. Though the Greater China region was not the centre of the storm, the region suffered hardest hit and was almost the worst performer as international funds tended to raise fund here to save their balance sheet at home land in order to survive and relative fundamental values were ignored in the short term. Shanghai A index dived more than 65% to close at 1,820. Both Hang Seng Index and H Index lost near half to close in weak tone of 14,387 and 7,898 respectively. Unfortunately, the share price drop of more than 90% is not uncommon even among the big capitalised stocks. Property, resources and transport counters represented the biggest losers. The Financial Tsunami came and spread rapidly and widely. It damaged the whole world economy, leaving a very nervous worry on the prospect of economy recovery and the workability of the current financial system.

The beginning months of 2009 were not better than last year. The fall into a bear investment market and economic recession was no more questionable and there were no convincing signs on the pace of economy recovery. All economic data of major developed countries were reported deteriorating and the financial status of major financial institutions were also diving into danger zones. People maintained maximum doubts on the effectiveness of the global radical monetary and fiscal policy of the major governments in revitalising the economy. Politically, we believe the whole world cannot afford the collapse of the current financial system and cautiously expect that the economy may eventually recover but in a longer time frame. In view of our heavy export reliance, Hong Kong economy will inevitably be affected. The 1997 Asian Crisis brought a costly lesson and the economy structure was thereafter strengthened with gearing keeping at comfortable level among the government, corporate and individual units. This helped to reduce the pains brought by the Financial Tsunami from overseas. Having the greatest foreign exchange reserve, strong current account surplus and tremendous consumer saving, the Chinese government is empowered with greatest manipulation room in carrying out progressive monetary and fiscal policy to stimulate the domestic economy. The enlargement of domestic consumption is almost a definite target to replenish the loss in export business amid poor overseas economy. Hong Kong is well equipped to ride on the recovery train on the back of these China market strengths. The single digit Price/Earning ratio and attractive yield of the stock market will finally attract the priority picks by international funds as soon as global economy manages to stabilise. The confidence collapse on the structural financial products may divert investors more to direct investment activities and the default of Lehman Mini Bonds may restrict the banks from carrying too aggressive expansion away from its traditional field. Hopefully, we expect more clients to trade stock directly through the securities companies and competitions from bank to be decreasing. In this aspect, we are optimistic over the industry on the long term perspective.

## 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 53% of total revenue, was HK$25,303,000 (2007: HK$55,859,000). Loss for the division was HK$191,000 (2007: profit HK$25,688,000). The division remained weak amid the bearish sentiment and the poor stock market.

## SECURITIES MARGIN FINANCING

During the year, interest income generated from securities margin loan portfolio accounted for 4.3% of the Group's revenue was HK$2,065,000 (2007: HK$3,521,000). Profit for this division reached HK$1,031,000 (2007: HK$2,942,000). The division had registered decline mainly attributing to the drop in trading activities as well as a decrease in loan demand in the prevailing cautious sentiment.

## FINANCIAL MANAGEMENT AND ADVISORY SERVICES

Revenue generated from financial management and advisory services was HK$19,240,000 (2007: HK$28,103,000). Financial tsunami caused by the collapse of Lehman Brothers hit the global financial market seriously. Because of the bearish and poor investment sentiment, business was softened, especially in the four quarter of 2008. We will take conservative approach as the investment strategy for our clients. Under current economic environment, the most important job is to maintain clients' confidence. We will recruit more experienced and professional consultants to enhance our competitiveness.

## INVESTMENT BANKING

The Group operates its investment banking division under the subsidiary Karl Thomson Financial Advisory Limited. Operating revenue generated by the investment banking business was HK$1,255,000 this year (2007: HK$2,822,000).

Year 2008 was a tough year for the financial sector. As a result of the global financial crisis happened towards the end of the financial year, most of the companies in Hong Kong and the People's Republic of China had held back their business plans and switched to low cost operations. Meanwhile, due to the tightening capital market, external source of funding was very limited. Fund raising exercises, being a major source of income for investment banking, were therefore suppressed in the year throughout. The revenue recorded a drastic decrease of 56% comparing to 2007. Fortunately, our division had still been able to source mandates on financial advisory, Listing Rules advisory and other related transactions.

As the financial turmoil has yet to be settled, we expect that the business of investment banking division remains challenging. Our management, however, commits to strive for alternative business opportunities under unfavorable economic environment. We will continue to operate at minimum cost and position ourselves as a premier boutique investment bank offering tailor-made and cost effective services to our clients.

**OIL AND GAS BUSINESS**

The energy arm of the Group is developed through our wholly owned subsidiary, Karl Thomson Energy Ltd ("KT Energy"). KT Energy has 40% participating interest in two blocks in Egypt, Block 2 West Esh El Mallaha ("Block 2") and Block 3 West Kom Ombo ("Block 3").

For Block 2, we have drilled two wells in last year. Given these additional well data, we gained a better understanding over the geological development in the block. A field trip was then carried out to confirm internal geological interpretations. We intend and have planned to drill a third well by the end of this year.

For Block 3, the operator, Groundstar Resources Egypt (Barbados) Inc ("Groundstar"), as well as our project partner have completed the seismic acquisition of 700 km 2D seismic in January 2009. The seismic acquisition has taken much longer than expected due to the rough geological surface in the area. Together with the existing seismic data on hands, we have a total close to 1,700 km 2D seismic for uses. Data processing has recently completed. Preliminary interpretation has reviewed several interesting structure. The operator is now working on a more detailed understanding and analysis on them. KT Energy's 40% interest in this block is carried by our project partner up to the initial spending of US$7 millions.

## ASSOCIATE – ELECTROPLATING EQUIPMENT BUSINESS

The technology arm of the Group is developed through our associate, Asia Tele-Net and Technology Corporation Limited ("ATNT").

The turnover of the machinery sales this year was more or less same as last year. We have sold our electroplating technologies through three business segments – Printed Circuit Board ("PCB"), Surface Finishing ("SF") and Photo Voltaic ("Solar") sectors. Both the SF and Solar have recorded growth this year.

The gross margin was roughly the same as last year. We did experience a drop in gross margin during the first half but through collective effort, from material price negotiation to the change of engineering design, we have managed to keep the gross margin within an acceptable level.

Most of the PCB factories, whether in Asia , Europe or North America, have operated at around half capacity only from the last quarter of 2008, as the demand for consumer products dropped drastically. To avoid building up huge inventory, the PCB factories have no choice but to shut down some of the production lines. After the Chinese New Year in January 2009, some chose to ask staff to go on no-pay leave while others chose to lay off the redundant manpower.

There are some signs showing that the activities are ramping up again. Our customers are increasing their productivity gradually, although still not yet in full production.

With the poor investment sentiment, our strategies are to maintain a lower overhead but continuing to invest in R&D. We believe when the economy is indeed recovered and when consumer's confidence is back, any advanced design or technologies we can provide to our customers will put us a leading position in the industry!

ATNT has announced on 28 January 2008 that it has entered into an agreement to dispose its interest in its associate Intech Machines Co Ltd. The transaction was completed on 7 April 2008 and the profit gained from such disposal was approximately HK$102 millions and the cash received was approximately HK$150 millions.

## MATERIAL ACQUISITIONS AND DISPOSALS OF COMPANIES

There was no material acquisition and disposal of companies during the period.

## LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

As at 31 December 2008, the Group had shareholders' funds of approximately HK$508,288,000 (2007: HK$576,730,000). The net current assets of the Group were HK$61,339,000 (2007: HK$89,944,000), which consisted of current assets of HK$180,367,000 (2007: HK$299,649,000) and current liabilities of HK$119,028,000 (2007: HK$209,705,000), representing a current ratio of approximately 1.52 (2007: 1.43).

The Group generally finances its operation with internally generated cash flows. The Group has no long-term bank borrowings apart from occasional utilisation of overdraft facilities and short-term bank borrowings. During the year, the Group obtained short-term bank borrowings which is mainly facilitating the margin to client for the application of Initial Public Offering. As at 31 December 2008, the Group has cash and cash equivalent (excluding the pledged fixed deposits of general accounts) of HK$38,016,000 (2007: HK$42,264,000).

As at 31 December 2008, the Group's gearing ratio, expressed as a percentage of total borrowings (including bank loans and overdrafts) over shareholders' funds, was at a level of 0.07 (2007: 0.97).

## CONTINGENT LIABILITIES

The Company has given guarantee to bank in respect of the securities margin financing facilities granted to subsidiary. No bank borrowings of such facilities utilised by the subsidiary as at 31 December 2008 (2007: Nil).

## CHARGE ON ASSETS

The Group held banking facilities from various banks as at 31 December 2008. The Group's banking facilities were secured by guarantees given by the Group's bank deposits, margin clients' listed securities and the Company.

As at 31 December 2008, bank deposits amounting to HK$16,594,000 (31 December 2007: HK$63,141,000). Bank deposits of approximately HK$7,468,000 (31 December 2007: HK$8,541,000) was pledged to secure banking facilities granted to a subsidiary and no margin clients' listed securities were pledged and approximately HK$9,126,000 (31 December 2007: HK$54,600,000) was pledged as requested by the Government of Egypt in relation to the oil and gas exploration and production business of Block 2.

## CAPITAL STRUCTURE

As at 31 December 2008, the total number of issued ordinary shares of the Company was 593,561,612 of HK$0.10 each (31 December 2007: 593,561,612 shares of HK$0.10 each).

## HUMAN RESOURCES

As at 31 December 2008, the Group employed a total of 100 staff (2007: 138) of which, 48 were commissioned based (2007: 82) and the total related staff cost amounted to HK$13,646,000 (2007: HK$18,400,000). The Group's long term success rests primarily on the total integration of the company core value with the basic staff interest. In order to attract and retain high caliber staff, the Group provides competitive salary package and other benefits including mandatory provident fund, medical schemes and bonus. The future staff costs of the sales will be more directly linked to the performance of business turnover and profit. The Group maintained organic overhead expenses to support the basic operation and dynamic expansion of its business enabling the Group to respond flexibly with the changes of business environment.

## FINAL DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2008 (2007: 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 2008, 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 longterm 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 2008.

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 2008 of the Group. The Audit Committee is composed of 3 Independent Non-Executive Directors of the Company.

## ANNUAL GENERAL MEETING

The annual general meeting of the company will be held at 11:00 a.m. on Monday, 1 June 2009 at Room 701, Tower One, Lippo Centre, 89 Queensway, Hong Kong.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 25 May 2009 to Friday, 29 May 2009, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor standard Limited at 26 Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 22 May 2009.

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

During the year ended 31 December 2008, neither the Company nor any of its subsidiaries purchased, redeemed or sold 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 2008 as set out in the preliminary announcement have been agreed by the Group's auditor, 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 Engagements 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 on the preliminary announcement.

## PUBLICATION OF 2008 FINAL RESULTS AND ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement will be published on the Company's website (www.ktg.com.hk) and the Stock Exchange's website (www.hkexnews.hk). The 2008 Annual Report of the Company containing all the information required by the Listing Rules will be published on the web site of the Stock Exchange in due course.

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

Hong Kong, 27 April 2009

*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.*