

**KARL THOMSON HOLDINGS LTD :
THE FIEFDOM OF THE BROTHERS LAM AND NAM**

It has been some time since a stockbrokerage firm has sought a listing on The Stock Exchange of Hongkong Ltd.

And it has been an even longer time for a stockbrokerage firm to seek a listing on The Stock Exchange of Hongkong Ltd -- after having had numerous official and, clearly, unwelcome meetings with the Regulatory Authorities of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC).

But that is the case in respect of Karl Thomson Holdings Ltd, the latest company to float on the Main Board of The Stock Exchange of Hongkong Ltd, to be designated '*Stock Code Number 7*'.

Karl Thomson Offered a total of 52.50 million, 10-cent shares at a Premium of \$HK1.10 per share, collecting about \$HK54 million for its efforts along the way.

Dealing in the shares of this Company is scheduled for Friday, September 8, provided that the levels of interest in the Placings and the number of application for New Shares justifies its flotation, in the opinion of the Sponsor, South China Capital Ltd.

The group of companies that comprise Karl Thomson includes a commodities and futures trading company, a finance company (used for securities margin financing), and a securities dealing company.

The group has been around since 1989, having been established by the brothers, Messrs Lam Kwok Hing, the present Chairman, and Nam Kwok Lun, the present Deputy Chairman.

But Karl Thomson has had its fair share of problems, over the years, with The Securities and Futures Commission (SFC), The Stock Exchange of Hongkong Ltd, and The Hongkong Futures Exchange Ltd, all having taken numerous slices out of the group's hide.

This is all explained on Pages 48 through 50 of the Company's Prospectus.

It states that the SFC carried out an inspection of Karl-Thomson Securities in October 1997 where it was identified that:

1. Records kept by the branches '*on the movement of physical stocks did not contain sufficient information about such movements*';
2. Clients' monthly statements '*did not contain information on cash movements of their accounts*';
3. There was no evidence to indicate that contract notes and monthly statements '*were delivered to clients on a timely basis*';
4. There was no evidence to indicate that stock-taking of scrip, recorded in the log book, '*matched with the physical scrips (sic) kept in the branches*';
5. There was no evidence to indicate that error reports were '*regularly reviewed by senior management*';
6. Bank accounts '*had unmatched bank deposits not resolved on a timely basis*'; and,
7. '*Audit trail regarding client's (sic?) request for withdrawal of physical scrips (sic) was not properly kept.*'

How many of the above violations of the rules are to be regarded as serious, TARGET has no idea, but it is sufficient that, in a period of just 3 years, there were numerous visits by the Authorities to this group of companies.

Clearly, Karl Thomson would have preferred not having the Authorities snoop into the affairs of this small stockbrokerage company.

Then, in August 1998, it is stated, at Page 49 of the Prospectus, that The Stock Exchange of Hongkong Ltd carried out *'a review of the operating system of Karl-Thomson Securities.'*

This is what The Stock Exchange discovered on its visit to the offices of Karl Thomson Securities:

1. *'a clause of the Unified Cash Client's Agreement required under the Rules had been omitted; and,*
2. *'bank reconciliation items had been outstanding for over six months.'*

Again, it is difficult for an outsider to estimate the gravity of these breaches of the Rules of The Stock Exchange of Hongkong Ltd, but they must indicate sloppy administration, at least.

Again, one must assume that Karl Thomson would have preferred not to have had The Stock Exchange dig into its affairs.

Then, in November 1999, just 15 months later, again The Stock Exchange of Hongkong Ltd inspected the books of Karl-Thomson Securities.

These are the 4 discrepancies, discovered on this visit:

1. *'clients' agreement and account opening information form was not in plain language;*
2. *'the accounting opening information form appeared not to have been reviewed by Management and information on the financial position, and investment experience and objectives of clients had not been obtained from clients;*
3. *'the financial return filed by Karl-Thomson Securities was incorrectly completed in that there was setting off of the receivables and payables that related to different securities held by a client; and,*
4. *'the administration of the margin finance arrangement between Karl-Thomson Securities and the Finance Company (Karl Thomson Finance Company, a sole proprietorship operated by Mr Nam Kwok Lun, Deputy Chairman of Karl Thomson Holdings Ltd) was improper because clients who were common to the Finance Company and Karl-Thomson Securities were only issued statements by the Finance Company and not by Karl-Thomson Securities. In addition, Karl-Thomson Securities had not entered into a custodian service provided by Karl-Thomson Securities to the Finance Company'.*

In addition to the above, The Stock Exchange discovered numerous other breaches of the Rules, ranging from internal control weaknesses in Karl-Thomson Securities, clients ... [CLICK TO ORDER FULL ARTICLE](#)

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