



*Management
Discussion and Analysis*

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Business Review

In the year of 2000, the local equity market experienced a buoyant growth in the first half and slowed down significantly towards the second half of the year. The impact on the leveraged foreign exchange trading market is that investor's interest returned to the forex market during the second half of the year, leading to significant increase of income earned from forex spot trading.

As the Group's sole principal activity is the provision of leveraged foreign exchange trading services, no segmental analysis is considered appropriate. In the foreign exchange market the relatively low price volatility among currency options during the year, averaging below 15%, posted little attraction to those high net worth clients who used to trade in such options. As a result, the volume of option trading dropped significantly compared to previous year.

However, a healthy increase in the volume of spot foreign exchange trading was witnessed. Both commission income and swap interest and dealing income showed a great leap. This was a result of the Group's penetration into the retail market both locally and overseas. After the listing of the Group, two local branches located at Tsim Sha Tsui and Western District were opened in August 2000. Three representative offices were successively opened in Paris, Manila and Tokyo during August to December 2000 to provide liaison services to existing clients and to promote the Group's image.

Staffing

The Group has expanded its sales workforce in order to increase share of the retail market of leveraged foreign exchange trading, and commission schemes have been devised to propel incentive of account executives. The Group continues its policy to recruit fit and proper persons to perform the duties for which they are employed and internal and external training programs are offered to staff on a continuing basis. In addition, the Group adopted a staff share options scheme designed to retain staff of high calibre. During the years, options for subscribing a total of 13,500,000 ordinary shares of the Company have been granted to 24 staff of the Group.

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Exposure to exchange rate fluctuation

Most of the Group's assets in foreign currencies are denominated in US dollars to which Hong Kong dollars are pegged. As regard exposure to exchange rate fluctuations for the Group's trading positions, prudent guidelines on position limits and floating loss limits are adopted by dealing room, and the limits are reviewed by the Group's risk management committee from time to time to cope with changes in volatility in the market.

Contingent liabilities

The Company received an injunction claim on alleged passing off the trade name "Hantec" which details were disclosed in Note 22 to the Accounts. Whilst the directors have commenced defence, the controlling shareholder, Hantec Holdings Limited, has indemnified all potential damages, losses, fees, expenses arising from the claim. Hence no provision has been made by the Group.

Use of Proceeds

The Group raised approximately HK\$60 million, net of related expenses, from the issue of 74.75 million new shares at HK\$1.00 in July 2000 in its initial public offering exercise. HK\$43 million out of the HK\$60 million had been applied up to 31st December 2000 towards the use as stated in the Company's prospectus including addition of working capital. The balance of HK\$17 million will be utilized according to the business plan of the Group as disclosed in the prospectus.

Technology Development

Technology improvements will be continued to help expand the Group's business. During the year the Group continuously performed benchmarking on various technology solutions. The computer server for forex trading activity has been upgraded and the information technology infrastructure has been enhanced to cater for increasing business needs. Operational efficiency was improved as a result.

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The Group's website, www.hantecforex.com has been successfully launched. It provides real-time currency information, technical charting analysis, and options trading information, market news and commentary to the public. Clients can also enquire as to the status of their accounts through this website.

Looking Forward

The Group will continue its strategy of increasing market share in the retail market of leveraged foreign exchange trading in Hong Kong. After establishing overseas representative offices, the second phase of development is to implement on-line trading which is expected to reinforce promotion of business in Japan, Philippines and France. As such, the Group will continue its business strategy of using Hong Kong head office as a base to export leveraged foreign exchange trading service to the rest of the world. To avoid undue expansion, geographical development will be conducted progressively in phases by setting up representative offices initially. Where business environment and internal control warrant, the Group will consider upgrading the representative offices into branches to provide full range trading services to overseas clients.

With well-managed control systems and solid financial position, the Group is ready to actively undertake expansionary and diversification moves as planned. The Board is confident that these moves will bring long-term value to shareholders and will further strengthen the Group's market position in the provision of foreign exchange trading services, both locally and abroad.

Tang Ping Sum

Executive Director