

Report of the Directors

The directors submit their report together with the audited accounts of Hantec Investment Holdings Limited (the “Company”) and its subsidiaries (collectively referred as the “Group”) for the year ended 31st December 2001.

Principal activities and segmental analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 14 to the accounts. Since the acquisition of certain subsidiaries in November 2001 (*Note 14*), the Group has expanded into securities broking, commodities and futures broking, corporate financial advisory, asset management and individual financial planning in addition to the leveraged foreign exchange business. An analysis of the Group’s performance for the year by business and geographical segments is set out in Note 2 to the accounts.

Results and appropriations

The results for the year are set out in the consolidated profit and loss account on page 24.

No interim dividends have been declared during the year.

The directors have proposed a final dividend of HK\$0.02 per ordinary share, totalling HK\$8,018,440.

Share capital

Details of the movements in share capital of the Company during the year are set out in Note 20 to the accounts.

Five year financial summary

A summary of the results and the assets and liabilities of the Group for the five years ended 31st December 2001 is set out on page 71.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in Note 21 to the accounts.

Distributable reserves

Details of the distributable reserves of the Company at 31st December 2001 is set out in Note 21 to the accounts.

Fixed assets

Movements in fixed assets of the Group during the year are set out in Note 11 to the accounts.

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Directors

The directors of the Company during the year and up to the date of this report are:

Chairman:

Mr. Tang Yu Lap

Executive Directors:

Mr. Tang Ping Sum (*Deputy Chairman*)

Mr. Man Kong Yui

Mr. Sze Chong Hoi

Ms. Chan Na Wah

Mr. Lam Ngok Fung (appointed on 10th January 2002)

Non-executive Directors:

Mr. Fan Wai Ming

Mr. Fong Wo, Felix

Independent Non-executive Directors:

Mr. Fan Sheung Tak

Mr. Yu Man Woon

In accordance with bye-law 86(2) of the Company, Mr. Lam Ngok Fung retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election. In accordance with bye-law 87 of the Company, Mr. Man Kong Yui and Mr. Fan Wai Ming retires at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' service contracts

Each of Mr. Tang Yu Lap, Mr. Man Kong Yui, Mr. Tang Ping Sum, Mr. Sze Chong Hoi and Ms. Chan Na Wah has a service contract with the Company for a three-year term commencing from 1st June 2000 which is not determinable within one year without payment of compensation. Mr. Lam Ngok Fung has a service contract with the Company for a term of sixteen months and twenty two days commencing from 10th January 2002 which is not determinable within one year without payment of compensation. These service contracts shall continue thereafter unless and until terminated by either party by not less than three months' prior written notice.

Save as aforesaid, none of the directors proposed for re-election at the forthcoming annual general meeting has entered into any service agreements with any member of the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

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Directors' interests in contracts

Mr. Tang Yu Lap, Mr. Man Kong Yui and Mr. Fan Wai Ming beneficially own 35%, 10% and 20% respectively of the issued share capital of Hantec Holdings Limited ("HHL"). HHL was a party to the Licence Services Agreement as discussed below under Connected Transactions.

Save as Mr. Tang Yu Lap, Mr. Man Kong Yui and Mr. Fan Wai Ming's interest in the Licence Services Agreement and except for directors' service contracts, no contracts of significance in relation to the Company's business to which the Company, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected transactions

1. On 8th October 2001 the Company entered into a sale and purchase agreement with HHL to purchase the entire shareholdings in HT (BVI) Limited at a consideration of HK\$81.78 million (the "Acquisition") as disclosed in Note 14(a). HHL is a major shareholder of the Company, the consideration was settled as to HK\$54.5 million in cash and HK\$27.28 million by allotment of 37,122,000 ordinary shares of HK\$0.10 each of the Company at an issue price of HK\$0.735 each. The Acquisition was approved in the members' meeting held on 22nd November 2001 and completed on 30th November 2001.
2. Other connected transactions required to be disclosed in accordance with Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), during the year are as follows:
 - (a) Hantec Capital Limited ("HCL"), previously a wholly owned subsidiary of HT(BVI) Limited and HHL, is principally engaged in corporate finance and financial advisory businesses. On 30th November 2001, the Group acquired HCL and for the period up to 30th November 2001, HCL has provided certain corporate financial advisory services to the Group and the advisory fee paid by the Group to HCL amounted to HK\$350,000 (2000: HK\$1,400,000). The directors consider that the terms of the services provided by HCL are at normal commercial terms.
 - (b) On 10th July 2000, the Company entered into a licence services agreement (the "Licence Services Agreement") with the HHL Group under which the Company and its subsidiaries have been granted a licence to occupy the Dealing Room, the Branches and such other premises rented by the HHL Group as may from time to time be specified in writing by the Group. On 30th November 2001, the Group acquired the entire issued shares of Chinacorp Nominees Limited ("CNL"), a subsidiary of HT (BVI) Limited and HHL which provide property licence services.

Under the Licence Services Agreement, the Company has agreed that, with effect from 1st January 2000 or on the commencement date of the tenancy of the relevant premises agreed to be licensed to the Group pursuant to the Licence Services Agreement, the Company will pay a

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licence fee based on the actual space occupied by the Group in those premises at a rate equivalent to the monthly rental payable by the HHL Group in addition to outgoings such as building management fees and utility charges apportioned by reference to the actual space occupied by the Group.

During the year and up to 30th November 2001, a total of HK\$1,709,097 (2000: HK\$1,378,974) has been paid to the HHL Group in this regard. The Directors consider that the terms of the Licence Services Agreement and the rental charged in 2001 are at normal commercial terms.

As HCL and CNL became wholly owned subsidiaries of the Group with effect from 30th November 2001, the transactions with the two companies since then were not regarded as connected transaction by the Listing Rules.

3. The independent non-executive directors of the Company have reviewed the above transactions and confirmed that:
- (i) the transactions have been entered into in the ordinary and usual course of business of the Group;
 - (ii) the transactions have been entered into at normal commercial terms and on an arm's length basis, and in accordance with the terms of the agreements governing such transactions or on terms not less favourable than those available to/from independent third parties;
 - (iii) the transactions have been entered into on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
 - (iv) the aggregate consideration paid in respect of the corporate financial services provided by the HHL Group in 2001 has not exceeded HK\$3 million or 3% of the Group's turnover, whichever is higher.

Save as disclosed above, significant related party transactions entered by the Group which do not constitute connected transactions are disclosed in Note 27 (a) to (d) to the accounts.

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Directors' interests in equity or debt securities

At 31st December 2001, the interests of the directors and chief executive and their associates in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”)), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

- (a) Interest in ordinary shares of HK\$0.1 each

	Number of ordinary shares in the Company				Total
	Personal interests	Family interests	*Corporate interests	Other interests	
Tang Yu Lap	500,000	–	256,372,000	–	256,872,000
Tang Ping Sum	60,000	–	–	–	60,000
Man Kong Yui	500,000	–	–	–	500,000

*Note : 256,372,000 shares of the Company are held by Hantec Holdings Limited, a company which is owned 35% by Tang Yu Lap, 35% by Yeung Sai Hong and his relatives, 20% by Fan Wai Ming, and 10% by Man Kong Yui.

- (b) Interest in options to acquire ordinary shares of HK\$0.10 each

Save as disclosed in the information on share options below, as at the date of this report, none of the directors and the chief executive officer and their associates had any interests in the shares of the Company and its associated corporations as defined in the SDI Ordinance, and none of the directors and the chief executive officer or their spouses or children under 18 years of age had any right to subscribe for the shares of the Company, or had exercised any such right during the year and up to date of the report.

Save as disclosed below, at no time during the year and up to the date of this report was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Apart from the Share Option Scheme detailed under information on share options, none of the directors (including their spouse and children under 18 years of age) have been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company.

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Information on share options

Share options are granted to directors, executives and employees under the Share Option Scheme adopted on 10th July 2000. Details of the share options outstanding as at 31st December 2001 which have been granted under the scheme are as follows:

Grantee	Grant date	Options held at 1st January 2001	Options granted during year	Options exercised during year	Options held at 31st December 2001	Exercise price HK\$	AWA# Closing price on the date before exercise	Exercisable period	Value of option as at the date of grant
Directors									
Mr. Tang Yu Lap	2/11/2000	500,000	N/A	500,000	-	0.66	0.73	2/2/2001 - 1/2/2006	N/A
	9/5/2001	-	600,000	-	600,000	0.6128	-	9/8/2001 - 8/8/2006	282,000
Mr. Tang Ping Sum	2/11/2000	1,000,000	N/A	300,000	700,000	0.66	0.76	2/2/2001 - 1/2/2006	N/A
	9/5/2001	-	500,000	-	500,000	0.6128	-	9/8/2001 - 8/8/2006	235,000
Mr. Man Kong Yui	2/11/2000	500,000	N/A	500,000	-	0.66	0.79	2/2/2001 - 1/2/2006	N/A
	9/5/2001	-	500,000	-	500,000	0.6128	-	9/8/2001 - 8/8/2006	235,000
Mr. Sze Chong Hoi	2/11/2000	500,000	N/A	-	500,000	0.66	-	2/2/2001 - 1/2/2006	N/A
	9/5/2001	-	500,000	-	500,000	0.6128	-	9/8/2001 - 8/8/2006	235,000
Ms. Chan Na Wah	2/11/2000	500,000	N/A	-	500,000	0.66	-	2/2/2001 - 1/2/2006	N/A
	9/5/2001	-	500,000	-	500,000	0.6128	-	9/8/2001 - 8/8/2006	235,000
Aggregate total of employees	2/11/2000	10,500,000	N/A	2,100,000	8,200,000	0.66	0.85	2/2/2001 - 1/2/2006	N/A
	9/5/2001	-	5,300,000	1,400,000	3,900,000	0.6128	0.83	9/8/2001 - 8/8/2006	2,491,000

The annual weighted average ("AWA") closing price of the shares of the Company immediately before the dates on which the options were exercised.

Notes:

- During the year, options covering 200,000 shares exercisable at HK\$0.66 lapsed as a result of the resignation of one grantee. Such lapsed options are not available to be regranted to other eligible persons.
- On 9th May 2001, options to subscribe for 7,900,000 ordinary shares of HK\$0.10 each of the Company have been granted to a total of 22 employees at an exercise price of HK\$0.6128 each. The closing price of the shares of the Company immediately before the date which the options were granted was HK\$0.80.

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The value of options are estimated using the Black-Scholes model with the following variables and assumptions:

	Options granted on 9th May 2001
– Risk free rate *	5.3%
– Expected volatility #	52.36%
– Expected dividend yield ^	Nil
– Expected life of the options	5 years

* Risk free rate	:	being the approximate yield of 5-year Exchange Fund Note traded on 9th May 2001 (benchmark issues)
# Expected volatility	:	being the historic volatility from the date of listing up to the date of grant of options
^ Expected dividend yield	:	assumed zero percent dividend yield and the result of the Group are retained for future development

The Black-Scholes model (the “Model”) is developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. The Model is only one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

(c) Summary of the prevailing share option scheme is as follows:

Purpose of the scheme	As incentive for continued and improved service with the Group
Participants of the scheme	Employees of the Company or any subsidiary, including executive directors of the Company or any subsidiary
Total number of securities available for issue under the scheme	39,612,200 shares (9.9% of the issued shares as at the date of this report)
Maximum entitlement of each participant under the scheme	25% of the aggregate of all shares subject to the scheme
Period within which the shares must be taken up under an option	Five years commencing on the expiry of three months from the date of grant of the option

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Minimum period for which an option must be held before it can be exercised	Three months
Amount payable on application or acceptance of the option and the periods within which payments must or may be made or loans made for such purposes must be repaid	Within 21 days from the offer date, the grantee must accept in writing and remit in favour of the Company HK\$1.00 per option, irrespective of the number of shares covered by the option
Basis of determining the exercise price	The exercise price is determined by the board, but shall be not more than 20 per cent below the average of the closing prices of the shares on the Stock Exchange for five business days immediately preceding the date of grant or the nominal value of the shares, whichever is the higher
Remaining life of the scheme	The scheme will end on the tenth anniversary of the date of Adoption

Substantial shareholders

The register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance disclosed that as at 31st December 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of Shareholder	Number of ordinary shares in the Company		
	Direct interest	Deemed Interest	Percentage
Hantec Holdings Limited	256,372,000 ***	–	64%
Mr. Tang Yu Lap	500,000	256,372,000 ***	64% ***
Convenient Way Limited	–	256,372,000 ***	64% ***
Mr. Yeung Sai Hong	–	256,372,000 ***	64% ***

*** 256,372,000 represents the same shares for which Mr. Tang Yu Lap, Convenient Way Limited and Mr. Yeung Sai Hong have interests.

HHL is the registered and beneficial owner of 256,372,000 shares of the Company. Mr. Tang Yu Lap beneficially owned 35% of the issued capital of HHL, Convenient Way Limited beneficially owned 35% of the issued capital of HHL, Mr. Yeung Sai Hong beneficially owned 60% of the issued capital of Convenient Way Limited and is deemed (by virtue of the SDI Ordinance) to be interested in the 256,372,000 shares.

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Save as disclosed above, the Company has not been notified of any interests representing 10% or more of the issued share capital of the Company.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and counterparties

The percentages of the largest five customers of leveraged foreign exchange business in terms of trading volume are as follows:

Customers

– the largest customer	9.88%
– five largest customers combined	31.13%

The percentage of the largest five customers of the Group's business, other than those of the leveraged foreign exchange business in terms of turnover as disclosed above, contributed less than 30% of the total turnover of those business.

As the Group is engaged in the provision of financial services, the directors are of the opinion that the disclosure of brokers and financial institutions which are counterparties to the group would be of limited or no value.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the company's share capital) had an interest in the major customers of either category noted above.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

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Issue of shares

Pursuant to an agreement on placing of shares dated 21st August 2001, the Company issued and allotted 60,000,000 ordinary shares of HK\$0.10 each at a price of HK\$0.73 per shares to certain (more than six) independent investors. The price represented a discount of approximately 6.4% to the closing price of HK\$0.78 per share as quoted on the Stock Exchange on 21st August 2001. Net proceeds of approximately HK\$42.8 million has been used to finance the acquisition of the shareholdings in HT (BVI) Limited, from the Company's major shareholder, HHL.

On 30th November 2001, there were 37,122,000 ordinary shares of HK\$0.10 each issued at HK\$0.735 to HHL as part of the consideration for the purchase of HT (BVI) Limited from HHL.

Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Appendix 14 of Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The non-executive directors of the Company were appointed for a two-year term expiring on 25th May 2002.

Audit Committee

On 10th July 2000, pursuant to the Listing Rules, an audit committee was formed, comprising two independent non-executive directors and one non-executive director, namely Mr. Fan Sheung Tak and Mr. Yu Man Woon, and Mr. Fan Wai Ming. The Audit Committee has held two audit committee meetings during the year.

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company on the same date. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Tang Yu Lap

Chairman

Hong Kong, 18th April 2002