

The Board of Directors (the “Board”) of Hantec Investment Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are pleased to present the Group’s Interim Report and condensed accounts for the six months ended 30th June 2002. The consolidated results, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six-months ended 30th June 2002, and the consolidated balance sheet as at 30th June 2002 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 9 to 26 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations and Results

Since the acquisition of other financial businesses late last year, the Group started to provide full range of financial services to clients in Hong Kong and overseas. During the period under review, the Group experienced a local economy rippled by rising unemployment, downward adjustment of property market, and poor consumer and investment sentiment. The Group’s results changed from a profit of HK\$5 million to a loss of about HK\$4 million which was mostly attributed to the loss of the securities dealing business as turnover of the equity market slowed down to an extent greater than expected.

However, notwithstanding the austere market conditions, as a result of consolidation, the Group managed to expand its market share in corporate finance, and to expand the horizon of fund management division to not only act as asset manager for a fund but as investment manager for investment vehicles listed on the Stock Exchange of Hong Kong (“SEHK”). In addition, the Group has sharpened its focus on international expansion for its leveraged foreign exchange trading and commodities trading businesses.

The Group’s corporate finance team started in the second half of last year to engage in sponsoring companies to be listed on The Growth Enterprise Market (“GEM”) in Hong Kong, and has, since the beginning of this year, successfully sponsored four companies listed on the GEM board and one company listed on the main board of the SEHK. In the light that there is still no schedule of launching the second board on the Shenzhen Stock Exchange, it was anticipated that there would be many private enterprises in the PRC looking for GEM board of SEHK as their destination for listing. It was on this background that the Group chose to explore the PRC corporate finance market; and the Group has started processing PRC private enterprises to be listed on the GEM board of SEHK. The corporate finance department turned around from a loss of HK\$711,472 to a net profit of about HK\$2.4 million, and it is expected that more contribution will ensue.

Apart from managing an equity fund invested in the Asia Pacific markets, the asset management department started in January this year acting as investment manager for an investment company listed on the SEHK. Such expansion of scope of activities by the asset management department is leveraged on the investment skills and research capacity of the department. With good investment experience in the Asia Pacific region, the department will continue to expand in this market.

During the period, the business volume of spot contracts from leveraged foreign exchange trading increased significantly as compared to the previous corresponding period. With regards to interest income derived from margin deposit placed with counterparties was far below that of last corresponding period due to the low interest environment which led to a drop in interest income of over 80%.

As regard agency foreign exchange option trading business, although business volume increased, contribution to the revenue of the Group was not significant due to low option volatility and option premium. The Group also continued in-house foreign exchange option trading activities under the Group's risk management policies and procedures, and generated revenue of approximately HK\$4 million during the period.

The associated company established with a financial institution late last year helped promote the Group's leveraged foreign exchange trading and commodities trading businesses in Japan. Business volume from the Japanese market has gradually increased. Growth in the trading of commodities futures contracts was remarkable, particularly in overseas markets like Japan and the USA; and the department achieved a turnaround from a loss of HK\$927,315 to a profit of HK\$636,873.

The associated company provides the Group with strategic partners to develop overseas markets whilst head office in Hong Kong provides trading and back-office support. Given the success of the associated company in Japan, the Group has planned to develop similar associated company in the Philippines and Europe.

Insurance broking and financial plan advisory business recorded relatively satisfactory results. The continuing downward adjustment of the equity market has led to low market turnover reflecting decrease in participation by investors. In the retail end of the market, many investors chose to look for stable and long term investments. As the demand for personal financial advisory services and stable investment instruments increases, the Group has opened up to 8 personal financial services centres. To maintain a high level of professional standard more high quality consultants were recruited. As a result of expansion this line of business also managed to achieve a turnaround from a loss of HK\$1,139,970 to a profit of HK\$102,549 during the period.

The average market turnover of Stock Exchange of Hong Kong dropped over 21% from an average daily of HK\$9,309 million to HK\$7,341 million. Currently the market sentiment remains bearish and the management, in the light of decreasing market turnover, management lost no time in stepping up cost control, particularly in closing down branch offices and consolidating marketing and operation resources at head office.

Liquidity and financial resources

The Group continued to maintain strong capital base with abundant liquid capital. There were no long-term borrowings. Amongst the members of the Group, only one subsidiary which engages in securities dealing has short-term borrowings from banks. The directors recognise the importance of keeping high liquidity in order to comply with respective financial resources requirements promulgated by the Securities and Futures Commission and to ensure that the Group is in the right position should there arise any great investment opportunities.

During the period the Group kept a current ratio of over 4 times of its current liabilities. Over 60% of the net asset was made up of cash and the trade and other receivables are mostly current. The above figures were arrived at after making provision against receivables which became doubtful.

Exposure to fluctuations in exchange rates

The directors recognise the importance of exposures in foreign exchange and have laid down strict risk management and limit setting policies. The residual positions in agency business and proprietary trading of leveraged foreign exchange are closely monitored by the responsible directors in the dealing room under management guidelines and limits. The assets of the Group which are denominated in foreign currencies other than US Dollars are mostly Japanese Yen comprised primarily deposits and margin kept with authorised institutions or brokers. The exposure to fluctuation in exchange rates of these deposits are also monitored by the responsible directors in the dealing room.

Contingent liabilities

The Company provided corporate guarantees to banks and financial institutions on the banking facilities granted to two wholly owned subsidiaries engaging in securities broking and leveraged foreign exchange trading. As at 30th June 2002, the total amount of corporate guarantee provided in connection with the Group's securities broking business amounted to HK\$168 million. For the leveraged foreign exchange trading facilities, the guaranteed amount varies according to the open positions at the time.

Whilst the defence action on the alleged passing off of the trade name "Hantec" continued, the indemnity provided by the controlling shareholders on all potential damages, losses, fees and expenses arising therefrom remains effective, and hence no provision has been made on this matter.

Looking forward

The bankruptcy of big corporations like Enron and Global Crossing, the subsequent bringing to light of accounting problems of big corporations, and the political instability in the Middle East following the 2001 September disaster in the USA all painted a gloomy picture for the global economy. Hong Kong is no exception and the index of local market is one of the worst performers together with Taiwan in the whole Asia Pacific region. Despite the geographical proximity, the above 7% growth rate in the PRC economy seems to bring no immediate benefit to the local economy. In the circumstances, the Group will attempt to increase market share of corporate finance business, and look for investment opportunities in overseas and the PRC markets in order to expand beyond Hong Kong.