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 2003. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2003, and the consolidated balance sheet as at 30th June 2003 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, and have been reviewed by the Audit Committee of the Company are set out on page 9 to 25 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

The epidemic of Severe Acute Respiratory Syndrome (SARS) which spread out in Hong Kong early this year shocked the seven million population of the territory. Restaurants, cinemas, and hotels only retained a small fraction of their normal businesses because people tended to stay at home. The adverse effects of the epidemic nearly hit all industries from consumer spending to investment banking. In the light of the inevitable dwindling performance that many of the listed companies would suffer, the Hang Seng Index hit its lowest level of 2003 at around 8,400. In the face of such a crisis, the Group implemented a series of crisis management measures to tackle the possibility of staff infections. Separate off-site premises were maintained to provide an independent trading centre and for back-up data storage, pregnant women were allowed to work at home, and staff were required to be quarantined for 10 days if infection case was found in the building in which they reside. As a comprehensive financial services provider, our business operations were maintained continuously as some of our clients trade round the clock and they could not afford to miss a beat in their investment decisions; and it was during that period that we found our on-line trading platform greatly facilitated our services. Finally, when SARS receded from the territory and we breathed a sign of relief, our interim results turned around from a loss of HK1.06 cent per share in 2002 to a profit of HK0.53 cent per share in this year.

Review of operations and results

The Group's turnover as a whole was not much different from last. But the mix among the subsidiaries varies. Financial planning and insurance brokerage showed an increase in turnover of 117% over the last corresponding period whilst securities brokerage dropped by nearly 40%. Slight increase in turnover was recorded for leveraged foreign exchange trading as clients from outside Hong Kong tend to engage in foreign exchange trading through our on-line trading platform. Decreases in turnover were recorded for corporate finance, commodities and futures trading, and asset management because sentiment in the securities market still remained weak.

Total operating expenses reduced by HK$9.61 million, or by 12.7% as a result of consolidation of branch businesses to head office and a series of cost reduction measures which started to generate benefits. Remarkable reductions in expenses were noted in rent and rates, amortisation of goodwill and legal and professional fees. The cost control strategies adopted by the management helped stabilise the financial position of the Group during the last period where the territory was facing a lot of economic uncertainties during the first half of the year; and the Group is now in a better position to resume more proactive market expansion strategies, particularly in the PRC.

Leveraged foreign exchange trading

Notwithstanding the significant impact by the SARS outbreak in the 2nd quarter of 2003, the performance of our leveraged foreign exchange trading activities was better than expected in the first half of year 2003. All major currencies fluctuated by a greater extent compared with last period. Take an example, EURO recorded the lowest of 1.0329 and the highest of 1.1941 in the first six months in 2003. Such volatile market drew interests from experienced professional investors trading in foreign exchange. A net profit of HK$6.96 million in the first half of 2003 was recorded compared with HK$1.51 million for the same period last year. It was found that major income was derived from trading profit. Following the successful launch of online foreign exchange trading and comprehensive promotion programs, the number of clients using on-line trading service has been increasing. During the first half of 2003, approximately 43% of the turnover was generated from online trading.

We believe that there will be increasing demand for online trading and more resources will be invested for enhancing the system. It appears that clients engaged in leveraged foreign exchange trading are more educated and professional and they prefer to enjoy the benefit brought along by information technology to obtain timely foreign exchange information, research material and immediate market news. In addition, the online trading system's stability and security also provide clients a reliable and safe platform for round the clock trading. Furthermore, it is an useful tool for overseas clients of different time zones.

Securities dealing

The historical high unemployment rate added further pressure to the already low market turnover which hit the lowest level, i.e. HK$2.1 billion on 2nd January 2003. The poor sentiment leading to the drop in business volume and the abolition of minimum commission explain the reason of the decrease in revenue. However, the Group is not too pessimistic on the securities brokering business. The effect of a series of cost cutting measures which the Group commenced in the last year start to crystalise. The half year loss narrowed down to HK$2.94 million which represented a 60% drop as compared to the corresponding period of the last year. The business in the recent months continues to recover. Monthly turnover has been in an upward trend, especially after the overcome of the SARS epidemic. Hopefully, the business can further improve in the coming months. The Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") and the relaxation on people in the PRC to travel to Hong Kong are expected to contribute to the recovery of the economy as whole. The stock market could therefore be benefited by the influx of PRC citizens who have interest in investing in Hong Kong.

Commodities trading

The performance of commodities and futures trading business is similar to the securities dealing business as the two markets are related to each other. As regard overseas commodities market, trade volume in Japanese commodities decreased because prices of commodities like coffee, rubber, and soya beans moved in narrow ranges, and therefore there were less investors participating in the trading activities. As a result, loss of HK$0.3 million has been recorded. There is keen competition in the local commodities trading market, the Group will focus to expand overseas markets and introduce different products of commodities to increase client base.

Bullion trading

Bullion trading was brought into the Group in September 2002 and is gradually building up trading volume. The fluctuation in the price of bullion in the first half of the year attracted new clients to participate in this market. The department suffered a net loss of HK$0.9 million which was mainly due to the loss arising from the trading of bullion and the operating expenses. As bullion prices picked up from around USD319 per ounce to about USD389 per ounce. It is expected there will be more investors becoming interested in this product and positive contribution will be achieved as client base and trading volume gradually increased.

Corporate finance

The Hong Kong Initial Public Offering ("IPO") market was sluggish in the first half of 2003. This was partly caused by the outbreak of SARS in Hong Kong and other major cities in the PRC because business trips and client meetings were reduced to the minimum.

During the period under review, our corporate finance team completed one Main Board IPO, nine advisory assignments including asset injections and rights issue. In addition, we acted as a co-manager for a GEM Board IPO. As at 30th June 2003, we were the on-going sponsor of four GEM Board listed companies. The division achieved an operating profit of HK$0.04 million.

In order to explore more business opportunities in the PRC market, we will continue to participate in various financial market exhibitions and conferences in the mainland. With the current strong economic growth, it is expected that there will be increasing number of enterprises in the PRC, especially in the private sector, demand for corporate finance advisory services, and that revenue from this market will form a significant part of our future income.

Asset management

Losses from the asset management division continued to narrow due to cost control and additional management fee income from acting as investment manager for investment companies listed on The Stock Exchange of Hong Kong Limited. In the first half of 2003, the net loss of the division was reduced from HK$0.4 million in the corresponding period in 2002 to HK$0.3 million.

The performance of the private equity fund ("Fund") managed by the asset management department is in line with the equity markets. The net asset value of the Fund rose by 7.0% in the first half of the year on the back of recovery of stock markets. As at the end of June 2003, the Fund's allocation was that major investments remained in Hong Kong and Japan equities markets, and minor investments were put on mainland-related shares, Australia and the Asean markets. With anticipation of further improvement in global economic outlook, the Fund is structured to capture gains resulting from upside in major equities markets in the second half of 2003.

Financial planning

Turnover from our financial planning division grew steadily, and the half yearly results improved from HK$0.10 million of the same period last year to HK$0.98 million. While the number of financial services centers remains as 7, contributions in terms of business volume are more balanced, and the volume of unit trust business advances steadily due to market sentiment and introduction of new products.

Liquidity and financial resources

The Group's assets remained highly liquid throughout the period under review. Out of the total assets of HK$318 million, HK$164 million was cash and HK$53 million was receivable from reputable financial institutions. The Group does not have any long term liabilities and current liabilities was mainly margins or deposits payable to clients, expenses accrual and bank borrowings procured to finance margin clients under our securities dealing division. Current assets maintained at over 4 times of current liabilities. During the period under review, all subsidiaries licensed by the Securities and Futures Commission (the "SFC") fully complied with the financial resources requirement promulgated by the SFC.

Exposure to fluctuations in exchange rates

Clear position limits and floating profit/loss limits have been laid down to manage foreign exchange positions. The residual positions arising from clients' trades and the proprietary trading positions are closely monitored by designated responsible directors in the dealing room under pre-approved guidelines and policies. Assets in overseas office are of minimal amount. Margin deposits received from clients and deposited with counterparties in currencies other than the US Dollars and HK Dollars are mostly in Japanese Yen, the exposure to fluctuation in exchange rates of which are also monitored by the responsible directors in the dealing room.

Contingent liabilities

The Company continues to provide corporate guarantee to its wholly owned subsidiaries in securing banking facilities. As at the end of the period under review, the total amount of corporate guarantee provided to the subsidiary which engaged in securities dealing and another subsidiary which engaged in bullion trading were HK$168 million and HK$9 million respectively. For the subsidiary engaging in leveraged foreign exchange trading, the amount guaranteed varies according to the open positions at the time.

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

Looking forward

The PRC economy will remain a high-growth economy which still enjoy 8% GDP growth. Although the CEPA does not open much of the PRC securities market to Hong Kong financial services providers, the gradual easing of restrictions has already led to increase of visitors and consumer spending in the territory, which quickly revived local servicing industries. As such, the direction is clearly positive for Hong Kong, and the Group will step up business development programs for the rest of the year and beyond. Apart from investing in a New Zealand associated company which engages in foreign exchange trading, the Group acquired, after the period end, a company incorporated in Beijing which engages in consultancy and training services. Subsequently, the Beijing company opened a branch in Shanghai on 27th August 2003. The Group also entered into co-operation MOU with Pudong Development Bank, Shengzhen branch on 15th June 2003, and Guanzhou Securities Company Limited on 23rd July 2003 on market information sharing and regular meeting on technical and experience sharing. On the technology side, the Group has planned to upgrade its existing internet infrastructure and trading platform in order to provide a more robust trading environment for foreign exchange, securities and commodities trading activities and we expect there will be more and more clients choosing internet to carry out trading, especially from clients outside Hong Kong.