

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 consolidated financial statements for the six months ended 30th June 2005. 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 2005, and the consolidated balance sheet as at 30th June 2005 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 39 of this report.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors of the Group are pleased to deliver, for the first half of the year of 2005, a net profit after tax attributable to shareholders of HK\$12.7 million (HK\$9.4 million for the first half of 2004). The net profit after tax but before share of profit of associates was HK\$10.8 million, which is a remarkable improvement over 2004 (HK\$3.4 million). The favourable results are in tandem with the strong growth momentum of the Hong Kong economy which continued into the first half of 2005. In the first half of 2005, total exports and imports grew by 11.6% and 9.1% respectively, and tourist arrivals increased by 10.4% in the first 5 months. After 5 years of decline, Consumer Prices Index (“CPI”) showed a modest increase of 0.6%; and unemployment rate was 5.7% which was at its lowest level in the past 3 years. As the outlook remains optimistic for 2005, the government maintains an official forecast of Gross Domestic Product (“GDP”) growth of 4.5% to 5.5% for 2005. With oil price rocketed to record highs, and the market precipitating with interest rate hikes and liquidity moving in and out in speculation of Renminbi appreciation, the buoyant local economy did not give rise to a bullish run in the stock market. The average daily turnover in the stock market was about HK\$18 billion; and after a consolidation in the first quarter the Hang Seng Index closed at 14201 on 30 June 2005, which was slightly below the closing of 14230 as at the end of 2004. The foreign exchange market and bullion market exhibited high level of volatility, with Euro, GBP, and CHF fluctuated by more than 1,000 basis points and bullion prices traded within a wide range between USD412.7 and USD444.95 per ounce, posing sufficient volatility for speculative activities and against this backdrop leveraged foreign exchange trading remained the key driver of the Group’s net profits.

### Summary of Operations

The Group’s rapidly increasing leveraged foreign exchange trading activities continued into the first half of 2005. In addition, the Group’s bullion trading business grew significantly and accounted for 11% of the Group’s total revenue and more than 36% of the Group’s profit before taxation and share of associates’ profit. The result was that local operations generated HK\$15 million net profit before tax, and, together with contributions from overseas associates, aggregated to HK\$16.5 million before tax and HK\$12.7 million after tax. The results represent a fully diluted earnings of HK\$3.24 cents per share; and net asset value per share is HK\$0.70, after paying the dividend of HK\$0.025 per share during the period and further acquisition of the remaining minority interest shareholdings of the Taiwan subsidiary. The Group continued to focus on developing overseas markets. The Hantec SuperFX Fund (“FX Fund”) was launched to give an alternative investment product to overseas clients, a representative office was opened in Wenzhou, and the Group increased its shareholdings in the asset management subsidiary in Taiwan to 100%.

## **Leveraged Foreign Exchange Trading**

Increases in the US interest rates together with a consistent quarterly GDP growth of more than 3% in the United States led to a depreciation, amid a pattern of volatile fluctuations, of European currencies against US Dollar in the first half of the year. The high level of volatility attracted investors into the market both from the retail end of the market as well as from high-net-worth individuals. As a result, trading profit increase by 68% over the corresponding period in 2004 to nearly HK\$44 million; and the increase in business volume generated commission income of HK\$19.5 million which doubled comparing with the same period of 2004. Option trading activities shrank significantly due to the need to reserve comfortable buffer of liquid capital in order to maintain safe capital position in light of the fluctuations in the market. Going into the second half of the year the Group will continue the strategy of expanding overseas market. A wholly owned subsidiary has been established in Switzerland and commenced leveraged foreign exchange trading operations in July 2005. The subsidiary will serve the existing customers in France and is well positioned to explore the foreign exchange market in Europe. Meanwhile, a more robust internet trading platform will be launched in the second half of the year; and it is expected that the new platform will help the Group to increase its business volume and market share in overseas.

## **Securities Dealing**

The stock market was trading within a tight range in the first 6 months in 2005. Interest rate hike gave rise to doubts that local GDP may slow down, and in the property market transaction volume in the secondary market dropped substantially in the second quarter of 2005. The market sentiment in second tier stocks also cooled off after the rallies of casino-concept stocks receded. As such, commission income from stock brokerage activities dropped, but the downturn of brokerage business was partly compensated by increase of interest earned from margin financing and commission income from underwriting and placing activities. As a result total gross profit generated from securities dealing slightly decreased by about HK\$0.84 million, and net loss of the business amounted to HK\$1.58 million. Going into the second half of the year it is expected that the effects of interest rate hike will be gradually digested and the market will regain sentiment in the fourth quarter; and in view of the increasing amount of investors engaging in trading of stock related derivatives, more facilities will be introduced to clients with special investment needs in this area in order to broaden our share in the market.

## **Trading of Commodities Futures Contracts**

Turnover generated from trading of local futures contracts, mainly Hang Seng Index futures, remained about the same level as before, but due to great fluctuations in global commodities prices, particularly the sharp increase of oil prices, turnover from trading of overseas commodities futures increased by about 50%, leading to increase of gross profit by about the same percentage. Due to effective cost control measures operation costs were slightly reduced despite significant increase in turnover. However, due to foreign exchange exposure arising from foreign currency deposits, an exchange loss of HK\$0.8 million was recorded; and hence resulting a net loss of about HK\$0.31 million for the period. It is expected that the foreign currency exposure will be fully hedged in the second half of the year in order to accurately reflect the performance of the commodities trading business. As regard future market development, it is opportune to cash in the opportunities arising from the further liberalisation of the securities and futures sectors in the mainland market, more resources will be deployed to rebuild a more robust internet trading platform which has become critical for expanding financial services into the mainland market now.

## **Corporate Finance**

The corporate finance team successfully sponsored two companies to be listed on the Growth Enterprise Market on The Stock Exchange of Hong Kong Limited (“SEHK”), and boosted up turnover to HK\$5.6 million which was more than 70% increase over last period. However, due to additional requirements imposed by PRC regulators on companies seeking to transfer shareholdings to overseas market, the number of mainland companies seeking listing in the form of overseas incorporated companies came to a halt. The new measures significantly reduced the advisory activities provided to small and medium size mainland companies which would like to seek a listing status on the SEHK before, and as such will have an adverse impact on the Initial Placing Offerings (“IPO”) advisory business of the corporate finance team. The team executed 23 transactions during the period and will focus on more sizeable IPO projects in the second half of the year; and it is expected that business volume will grow again when these projects are executed.

## **Asset Management**

In addition to managing an equity fund with portfolio spread across major Asia stock markets, the asset management team assisted the management in launching the FX Fund which is offered to investors in overseas markets. The FX Fund is managed by reputable veteran forex trading professionals and assets of the FX Fund are invested mainly in the foreign exchange market. It provides an alternative investment for clients who expect high return and are also readily to afford higher than normal risks associated with investing in margin trading activities and derivative products. It is expected that with the Group’s strong expertise in foreign exchange trading the FX Fund will deliver a higher return than investing in traditional products in the capital market.

## **Investment Consultant and Wealth Management**

Whilst traditional personal financial planning services were offered by the subsidiary branded as investment consultancy, insurance linked consultancy services were separately offered by a separate subsidiary which is intended to give a more focused and distinct image in the market; and there had been no change in the nature of services provided by the two subsidiaries. During the first half of the year, commission income from both subsidiaries dropped by about 35% due to fierce competition from real estate agents and other new entrants in the market. Despite the cut-throat competition more effective costs control measures were introduced and the number of branches was reduced to 4; and in aggregate the financial planning and wealth management team managed to deliver slight net profit for the period. Going forward the team will structure value-added services for clients under the asset management licence in order to procure more recurring income.

## **Bullion Trading**

The volatile fluctuations of bullion prices provide numerous opportunities for speculative investors trading for profits. As a result trading volume increased significantly and led to outstanding performance of the Group’s bullion trading business in the first half of 2005. Commission income was 5 times and trading profits were 2.2 times of last period. Commission expenses increased by about 3.4 times of last period due to expansion of the bullion sales team, and operation and administrative expenses also increased in line with expanding trading volume. The net profits were HK\$4.53 million which was 2.17 times that of last period. We anticipate the bullion prices will continue to be volatile in the second half and more resources be deployed to expand our scale of bullion operations.

## **Financial Resources**

The Group continues to maintain a strong liquidity position. Current assets has been maintained at over 3 times of the current liabilities with receivables from brokers and financial institutions, and cash and bank balance standing at HK\$217 million. Bank overdraft and bank loan are solely for extending margin financing to securities margin trading clients and is part of the Group's overall cash management policy. Accounts payable mainly consists of expenses accrual and margin payable to clients. The Group does not have significant long-term borrowings.

## **Contingent Liabilities**

The Company continues to provide certain corporate guarantee only to its wholly-owned subsidiaries for banking facilities with financial institutions. The case regarding the alleged passing off of trade name "Hantec" remained outstanding. However, as the indemnification provided by the controlling shareholders remains effective, no provisions are made.

## **Looking Forward**

The Hong Kong economy is experiencing a robust rebound with consumer spending and retail sales continue to exhibit strong performance. Following the introduction of the second phase of Closer Economic Partnership Arrangement in August 2004 the number of Hong Kong origin products which enjoy zero tariff in the mainland market nearly triple. Under phase one securities and futures services had been granted preferential treatment, and now the mainland extended further liberalisation to this services sector. The further opening of the service sectors of the mainland market is in line with our strategic direction of enhancing the efficiency of the Group's Hong Kong operation centre by expanding overseas network particularly in the mainland market by way of representative offices and building up sales and marketing relationship with consultancy services providers in mainland. Meanwhile, to couple with the above development, the latest model of our foreign exchange internet trading platform will be launched, according to our schedule, in the second half of the year.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2005 (2004: nil).

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

At 30th June 2005, the register of directors' and chief executive's interests and short positions in the Company's shares, underlying shares and debentures kept by the Company as required under Section 352 of the Securities and Futures Ordinance (the "SFO") shows the following interests held by the directors and the chief executive:

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

	Number of ordinary shares in the Company			Total
	Personal interests	Corporate interests	Family interest	
Mr. Tang Yu Lap	500,000	256,372,000 <sup>1</sup>	–	256,872,000
Ms. Ng Chiu Mui	–	–	256,872,000 <sup>2</sup>	256,872,000
Mr. Sze Chong Hoi	400,000	–	–	400,000
Mr. Lam Ngok Fung	274,000	–	–	274,000
Ms. Poon Wai Ming	30,000	–	–	30,000

Notes:

<sup>1</sup> 256,372,000 shares of the Company are held by Hantec Holdings Limited ("HHL"), a company in which Mr. Tang Yu Lap beneficially owned 35% of its issued capital.

<sup>2</sup> Ms. Ng Chiu Mui is the spouse of Mr. Tang Yu Lap and is taken to be interested in the 500,000 shares personally held by Mr. Tang Yu Lap and the 256,372,000 shares held by HHL.

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

Save as disclosed in the information on share options below, during the period up to 30th June 2005, none of the directors and the chief executive, their spouses or their minor children or any corporations in which they are entitled to exercise or control one-third or more of the voting power at general meetings had any right to subscribe for the shares of the Company, or had exercised any such right during the period and up to 30th June 2005.

All the interests stated above represent long positions. As at 30th June 2005, no short positions were recorded in the Register of Directors' And Chief Executive's Interests And Short Positions required to be kept under section 352 of the SFO.

## 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 30th June 2005 which have been granted under the scheme are as follows:

Grantee	Date of grant	Options held at 1st January 2005	Options exercised during the period	Options held at 30th June 2005	Exercise price HK\$	Exercisable period
<i>Directors</i>						
Mr. Tang Yu Lap <sup>2</sup>	9/5/2001	600,000	–	600,000	0.6128	9/8/2001 – 8/8/2006
Mr. Tang Ping Sum	2/11/2000	700,000	–	700,000	0.66	2/2/2001 – 1/2/2006
	9/5/2001	500,000	–	500,000	0.6128	9/8/2001 – 8/8/2006
Mr. Sze Chong Hoi	2/11/2000	500,000	–	500,000	0.66	2/2/2001 – 1/2/2006
	9/5/2001	500,000	–	500,000	0.6128	9/8/2001 – 8/8/2006
Ms. Poon Wai Ming	2/11/2000	1,650,000	–	1,650,000	0.66	2/2/2001 – 1/2/2006
	9/5/2001	700,000	–	700,000	0.6128	9/8/2001 – 8/8/2006
<i>Aggregate of employees</i>	2/11/2000	4,250,000	–	4,250,000	0.66	2/2/2001 – 1/2/2006
	9/5/2001	3,050,000	–	3,050,000	0.6128	9/8/2001 – 8/8/2006

### Notes:

- <sup>1</sup> Save as disclosed above, at no time during the six months ended 30th June 2005 was the Company or its holding company, its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or employees of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.
- <sup>2</sup> Ms. Ng Chiu Mui is the spouse of Mr. Tang Yu Lap and is taken to be interested in the option to subscribe for 600,000 shares held by Mr. Tang Yu Lap, according to the meaning of the SFO.
- <sup>3</sup> During the six months ended 30th June 2005, options carrying rights to subscribe 500,000 shares at HK\$0.66 per share and 1,000,000 shares at HK\$0.6128 per shares which were granted to two then directors have been lapsed due to their resignation and retirement of their directorship respectively.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

The register of interests in shares and short positions kept as required under Section 336 of the SFO shows that as at 30th June 2005, the Company had been notified of the following shareholders' interests, being 5% or more of the Company's share capital. These interests are in addition to those disclosed above in respect of the directors.

### Interest in ordinary shares of HK\$0.1 each

Name of shareholder	Direct interest	Number of ordinary shares		Percentage
		Corporate interest	Family interest	
Hantec Holdings Limited	256,372,000 <sup>1</sup>	–	–	65.5%
Convenient Way Limited	–	256,372,000 <sup>2</sup>	–	65.5%
Mr. Yeung Sai Hong	–	256,372,000 <sup>2</sup>	–	65.5%
Ms. Chan Yu Suk	–	–	256,372,000 <sup>2</sup>	65.5%

<sup>1</sup> HHL is the registered and beneficial owner of 256,372,000 shares of the Company.

<sup>2</sup> Convenient Way Limited beneficially owned 35% of the issued capital of HHL and is owned as to 60% by Mr. Yeung Sai Hong whom is regarded as having corporate interest in the 256,372,000 shares held by HHL. Ms. Chan Yu Suk is the spouse of Mr. Yeung Sai Hong and is taken to be interested in the 256,372,000 shares held by HHL.

All the interests stated above represent long positions. As at 30th June 2005, no short positions were recorded in the Register of Substantial Shareholders' Interests and Short Positions required to be kept under section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30th June 2005. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30th June 2005.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group has always strive to enhance our corporate governance and transparency by adopting and implementing appropriate corporate governance practices; and the Group has complied with all the code provisions as set out in the Code on Corporate Governance Practices, Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") with the following exception:

### Code Provision A.2.1

This provision states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Mr. Tang Yu Lap assumes the roles of chairman, and there is no other person designated as chief executive officer. The board believes that this structure helps maintain strong and effective leadership and leads to a highly efficient decision making process. To help achieve a balance of power and authority, an executive management committee comprising senior executives meets every week to discuss and make decision on issues relating to day-to-day management of the Group's businesses. In addition, the board comprises reputable professionals also meets regularly to discuss major issues affecting operations of the Group which also helps maintain high level of balance of power without compromising consistent leadership of the Group.

### **Code Provision A.4.2**

This provision states that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to Bye-Law 87 of the Bye-Laws of the Company, at each annual general meeting one-third of the Directors for the time being should retire from office by rotation provided that the chairman of the Board and/or the managing director of the Company should not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. To comply with the code provision A.4.2 of the Code, the Company intends to propose to amend Bye-Law 87 of the Bye-Laws of the Company at the next annual general meeting of the Company.

## **COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted for compliance by the Directors the code of conduct for dealings in securities of the Company as set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code"), of the Listing Rules, and that the Directors have complied with the required standards set out in the Model Code throughout the six months ended 30th June 2005.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2005 with the directors. At the request of Audit Committee, the Group's external auditors have carried out a review of the unaudited interim accounts in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants.

On behalf of the board

**Tang Yu Lap**

*Chairman*

13th September 2005