



Management Discussion and Analysis

THE MARKET IN 2005

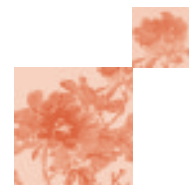
The securities market in the year of 2005 set several records, and gives strong indications that Hong Kong plays the role of the leading financial centre of Mainland China. Total turnover of the year reached a new record of HK\$4,520.4 billion which is a 14% increase over that of 2004. Total market capitalisation also reached a record high of HK\$8,260.3 billion, making Hong Kong the 8th largest exchange in the world. Hang Seng Index (“HSI”) closed at 14,876 which is an increase of 4.5% over a year ago. There were altogether 67 companies newly listed on the Main Board and Growth Enterprise Market (“GEM”) and raised HK\$165.7 billion in aggregate, of which HK\$137.4 billion was raised by H shares. As a result the market capitalisation of China-related stocks represent 36.86% of the total market capitalisation. The buoyant securities market is supported by a continued recovery of the local economy. GDP grew by 7.3% and external trade continued to grow. However, the rate of growth slowed down after 2 previous years of remarkable growth; and the prime rate increased from 5.25% to 7.75% after 8 interest rate increases during the year. Whilst oil and bullion prices continued to reach record high level or high levels in more than 20 years, major currencies exhibited great volatility against the US dollars. The high level of volatility continued to attract investor sentiment, and, in our continued strive to provide service excellence to our clients, we saw rapid growth in our bullion trading business. We expect there will be more room for growth in the bullion trading market for 2006 and beyond.

SUMMARY OF OPERATIONS

High volatility in the foreign exchange and precious metal market continued to provide lots of investment opportunities for our clients; and at the same time attracted more leveraged foreign exchange traders into the market resulting intensive competition for market share. With a solid management team of experienced professionals and continuous expanding sales network, the Group generated a profit attributable to equity holders of HK\$27.4 million which represents a 18.5% growth over 2004. Share of profit after tax from associates dropped from HK\$8.2 million in 2004 to HK\$4.5 million in 2005. Fully diluted earnings per share was HK7.01 cents (2004: HK5.91 cents), and net asset value per share was HK74.42 cents (2004: HK69.48 cents).

LEVERAGED FOREIGN EXCHANGE TRADING

Leveraged foreign exchange trading remained the key driver of the revenue of the Group. The total turnover represented 53.1% (2004: 56.2%) of the aggregate of the turnover. Interest income and swap interest both increased substantially due to consecutive increases in interest rate in the market. Commission income registered a growth of nearly 70%, and there was corresponding increase in commission expenses to account executives. Revenue derived from option trading dropped from HK\$7.7 million in 2004 to HK\$2.0 million in 2005 due to reduced trading activities of proprietary option trading. Direct expenses remained about same as 2004 but this line of business shared more of the indirect costs during the year, and as such the business recorded a reduction of net profit in 2005.



SECURITIES DEALING

After a rally of the casino concept stocks in 2004, the sentiment of the securities market turned to subscription of shares from initial public offerings (“IPO”). As a result the slight reduction of brokerage income was partly compensated by the increase in interest income derived from extending financing to clients who chose to use margin financing facilities for share subscription. Direct expenses for this business were slightly less than 2004 due to prudent cost control, and as a result the business netted a net profit before tax of HK\$2.3 million. Given that there are more and more sizable H shares or China related shares scheduled to be listed on the stock exchange in Hong Kong, and that the performance of the share prices of these companies remain satisfactory, it is anticipated that this kind of market sentiment will maintain in 2006.

TRADING OF COMMODITIES FUTURES CONTRACTS

With oil prices surged from about US\$40 to nearly US\$70 per barrel and agricultural products like sugar and corn reached high price levels of Japanese Yen 42,170 per 50 tones and Japanese Yen 17,590 per 100 tones respectively, turnover derived from futures contracts executed on overseas commodities exchange doubled that of 2004 because there were more investors engaged in commodities trading activities. Turnover on products of the local exchange primarily concentrated on HSI Futures contracts. As a result of revamping the internet trading platform, turnover in HSI contracts increased by about 30% and the majority of which were from Mainland China. Despite the growth in business volume operation expenses showed only modest increase; and as such the department registered a net profit of HK\$1.2 million (2004 loss of HK\$1.3 million).

CORPORATE FINANCE

Although IPO equity capital raised reached a new record of HK\$165.7 billion, there were great divergences between the Main Board and the GEM market. The number of newly listed companies on the GEM market dropped from 21 in 2004 to 10 in 2005; and, in contrary to the record IPO funds raised in the Main Board, the amount of IPO funds raised in the GEM market dropped from HK\$2,694 million in 2004 to HK\$665 million in 2005. The staggering decrease of IPO activities in the GEM market stemmed from a change of atmosphere which favors listing of sizeable enterprises at the expense of medium size companies. In the circumstances, our corporate finance arm managed to executed 2 IPO in the GEM market, delivered 35 advisory transactions, and acted as on-going sponsor for 7 listed companies. The department managed to make a net profit of HK\$1.1 million this year.



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INVESTMENT CONSULTANCY AND WEALTH MANAGEMENT

Since the delineation of unit linked and insurance linked products the 2 lines of services were separately carried out by investment consultancy and wealth management subsidiaries. Respective businesses were therefore gradually transferred across from the investment consultancy to the wealth management subsidiary. Due to fierce market competition from agents newly entered the market, the gross profit from insurance linked business remained low. As regard unit linked business, due to above-average performance of the funds recommended by our consultants, our clients received handsome return on their investments and the company also earned performance fee which gave rise to higher than normal gross profit than before. In view of the potential of our consultants to provide more value-added services in selection of investment instruments, we have participated in the platform of a reputable international bank with a view to providing investment consultancy services to high net worth individuals; and we anticipate this will give us an edge in competing with other competitors in the market.

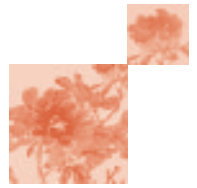
BULLION TRADING

With bullion prices fluctuated between US\$410 to US\$541 per ounce, trading volume of bullion increased by 128% and client margin was 4.7 times of that of 2004. Commission income recorded a 3-fold increase, and swap interest income also increased by 58%. The big increase in trading volume led to larger positions managed by our dealing room; and since we adopted consistent risk management strategies we netted nearly same proportion of net trading profits. As such, the amount of trading profits increased in tandem with the turnover and amount of positions managed by our dealing room. The net profit before tax registered a 63% increase. In addition to investors in local market, it has been noted that there were more and more investors in overseas market engaging in bullion trading, therefore it is expected that with the completion of the enhancement of our bullion internet trading platform and massive promotion campaign, there will be more growth in this line of business in the forth-coming year.

ASSET MANAGEMENT

The Hantec Balanced Growth Fund which is invested in the traditional equity market delivered 11.53% of return in 2005 (2004 is 10.87%). In the middle of 2005 our fund management department provided an alternative investment service to our clients by launching another fund, the Hantec SuperFX Fund, which is invested in the leveraged foreign exchange market. The fund targets at a different set of investors who have better understanding of the foreign exchange market and are more readily to accept higher risk in return for greater return through trading in the foreign exchange market on a leveraged basis. During the period from 13 July 2005, when the fund was launched, to the end of last year the fund generated a return of 7.02%. As a result the gross revenue which is net of distribution commission increased by almost 159% over that of 2004. The fund management department managed to develop a more solid fee income base and achieved a turnaround profit before tax of close to HK\$1 million.

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FINANCIAL RESOURCES

Throughout the year the Group has maintained highly liquid assets in order to enable certain members of the Group to comply with the liquid capital requirement promulgated by the Securities and Futures Commission. The Group's current ratio as at the year-end was 3.07 times of its liabilities. Bank balances and cash was 39.62% of the total assets of the Group. The Group did not have any long-term borrowings. Trade and other payables were deposits or margins payable to clients and accrued expenses. Bank overdrafts and short-term bank loans were solely utilised for financing securities trading clients from whom collaterals had been secured.

REMUNERATION AND HUMAN RESOURCES DEVELOPMENT

Pursuant to the Code of Governance Practices a remuneration committee was established to review the remuneration policy and structure of all directors and senior management of the Group with a view to establishing and maintaining a fair and reasonable remuneration policy for staffing the Group with high caliber executives. Bonus payments had been awarded to permanent staff according to the performance of the Group and account executives are awarded with competitive commission schemes which are fine tuned according to the changing market sentiment.

In addition to the management trainee program which was rolled out 2 years ago, the Group has also rolled out continuous training and education programs for staff of various levels in order to maintain a team of dynamic professionals who are imaginative, ethical, and cherish team spirit in their delivering of quality services to clients. Taking the lead to foster continuous professional development is our chairman, Mr Tang Yu Lap, who received an Honorary Doctor from Irish International University, was also awarded with a professional qualification of Certified Corporate Strategist from the Cambridge Association of Managers and a Honorary Certified Doctor of Business Administration Award from the Oxford Association of Management in the UK.

CONTINGENT LIABILITIES

The Company has provided certain corporate guarantees to a number of financial institutions for securing facilities for its wholly-owned subsidiaries for carrying out the business of leveraged foreign exchange trading, bullion trading and securities trading.

The case regarding the alleged passing off of the trade name "Hantec" remains outstanding. As the indemnification given by the controlling shareholders for potential damages, losses, fees and expenses incidental to the case remains effective, no provision needs to be made for this case.



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A writ of summons was received by a wholly owned subsidiary of the Company on 28th March 2006 from two of its clients jointly, attempting to claim compensation in the amount of approximately HK\$20.6 million against the subsidiary as a result of a number of transactions of leveraged foreign exchange trading. The subsidiary has instructed its legal advisor to defend the claim. After considering the facts and the information available, and after assessing the opinion provided by our legal advisers, the directors were of the view that at this early stage it is not practicable to ascertain the likely result, and hence no provision was made. The directors will closely monitor the development of the case and assess continually to determine whether an outflow of resources has become probable.

LOOKING FORWARD

After 12 consecutive rate hikes the views as to whether the US interest rate will be topping off and turn around in the second half of this year remain diverse; and that oil price is likely to remain at its present high level. On the other hand, the outlook of the Mainland economy still remains buoyant even though there is pressure to increase interest rate and re-value its currency. It is expected that domestic demand in the Mainland economy will continue to sustain the growth of the economy. The strategic plans of Hantec Group is to maintain a powerful base in Hong Kong to perform strategic functions like maintaining a robust control and risk management structure and liaison with our major bankers, and at the same time further expand our business presence in the Mainland market by building up more sales and marketing network. In addition to our subsidiary company in Switzerland which was opened mid last year it is our plan to establish more strategic footholds in overseas market and to build up overseas operation platform to support and co-ordinate our overseas business network. With such long term strategic plan, the Group will open a representative office in Vancouver to promote the image of the Group and to research for local market information. Given our core competencies and competitive advantages, our focus is to develop a robust global network with a view to providing high quality leveraged foreign exchange trading services to our clients in major markets, and to bring in better returns for our shareholders in the forthcoming years.

Tang Ping Sum

Deputy Chairman and General Manager