MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF THE MARKET IN 2006

In 2006, Hong Kong and the global economy both recorded satisfactory performance. Hong Kong had further consolidated its position as a leading financial centre in China and Asia. The total turnover of the Hong Kong stock market reached HK$8,380 billion, representing an increase of approximately 86% as compared to HK$4,520 billion in 2005. The Hang Seng Index (the "HSI") closed slightly below the 20,000 benchmark at 19,964.72 on the last trading day in 2006, representing an increase exceeding 30% as compared to that of the previous year. A year-on-year growth of total market capitalisation also exceeded 60%, amounting to HK$13,340 billion. In 2006, a total of 62 new companies (excluding REITs) were listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). Though the number of new listings was not the highest recorded, a record-high HK$334 billion was raised in new issue proceeds. The Industrial and Commercial Bank of China ("ICBC") achieved a global all-time high in the size of initial public offerings ("IPO") with gross proceeds amounting to HK$125 billion. Market capitalisation of the Hong Kong stock market exceeded its Germany counterpart to make Hong Kong the 6th largest stock market in the world. Hong Kong recorded GDP growth for the third year in a row with a 6.8% gain last year, further confirming Hong Kong's economic recovery from earlier doldrums. There were growing calls for cuts in interest rates, which were seen nearing the peak following an upward cycle that had lasted for over two years.

China's economic boom continued with fixed investment and individual consumption recording strong growth, while there was consistent pressure on RMB appreciation. These factors combined to drive up the stock market in the Mainland, benefiting strongly stock prices in Hong Kong.

The Group achieved sound business growth amid favourable market conditions, following years of vigorous efforts in global expansion. Our strategy of expanding overseas businesses started to show promising results and further moves in overseas expansion will be made in the future.

SUMMARY OF OPERATIONS

During the year, the Group completed the acquisition of the remaining 70% interest in Cosmos Hantec Investment (NZ) Limited ("CHI"), an associated company of the Company, to turn CHI into a wholly-owned subsidiary. The results of CHI has been consolidated as from October 2006. CHI contributed substantially to the turnover and profit of the Group with its strong asset backing and profitability. Furthermore, the Group set up its first North-American representative office in Canada in May 2006 to mark a major milestone in the expansion to the North American market.

For the year ended 31 December 2006, the Group achieved its best results since its listing on the SEHK in 2000, consolidated revenue amounted to HK$360 million (2005: HK$214 million); profit attributable to shareholders surged to HK$52 million, an increase of 93% compared to HK$27 million in 2005. Share of profit after taxation from associates attributable to the Group increased from HK$4.5 million in 2005 to HK$5.8 million in 2006. Earnings per share was HK13.29 cents (2005: HK7.02 cents). Fully diluted earnings per share was HK13.28 cents (2005: HK7.01 cents). Net asset per share was HK85.91 cents (2005: HK74.42 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

LEVERAGED FOREIGN EXCHANGE TRADING

Leveraged foreign exchange trading remained the major contributor to the revenue of the Group. In view of the buoyant foreign exchange market and additional revenue resulting from increased shareholding of CHI, turnover has risen from HK$114.4 million in 2005 to HK$135.7 million, representing approximately one third of our aggregate turnover. In addition, profit from this segment increased from HK$18.1 million in 2005 to HK$26.6 million, an increase of 46.9%. Share of leveraged foreign exchange trading by our subsidiaries in Switzerland and New Zealand was 14.8% and 23%, respectively; representing 12.8% and 10.2% of profit of that segment respectively.

BULLION TRADING

With gold prices remaining high within the range of between US$520.75 and US$725.75 per ounce, trading volume of bullion achieved satisfactory growth in 2006, due to the upgraded bullion internet platform and enhanced marketing efforts. More customers were converted to internet trading after the Group launched a new internet trading platform in the second half of 2006. Turnover of bullion trading surged from HK$28.3 million in 2005 to HK$130.2 million, an uplift of 3.6 times. Also, profit before taxation increased from HK$5.6 million to HK$32 million, an increase of 4.71 times.

SECURITIES DEALING

Hong Kong became the second largest IPO market in the world where large-scale H-share enterprises such as ICBC and other Mainland companies were seeking flotation. Public fervour for IPOs was so strong in the second half of 2006 that the securities market was mainly driven by IPO activities. Increased trading volume of the securities market boosted the growth of our securities segment, whose turnover increased from HK$24.6 million to HK$38 million, an increase of 54.5%. Commission income grew from HK$16.9 million last year to HK$27.9 million. As a result of the increase in margin finance loans by investors, margin interest income increased from HK$5.6 million to HK$8.5 million.

TRADING IN FUTURES

Trading in futures remained steady in 2006; turnover was up from HK$16 million to HK$17 million, an increase of approximately 6.3%. During the year, the on-going improvement of the existing internet trading platform and the rising general operating costs explained a slight drop in profit of this segment, from HK$1.2 million to HK$1.1 million. In 2006, Hang Seng Index Futures contracts executed at the Hong Kong Futures Exchange accounted for approximately one third of the segment’s turnover, while the remaining two-thirds represented futures contracts on overseas futures exchanges. The futures contracts executed on overseas exchanges were mainly on crude oil and metals given relatively volatile prices of both during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE FINANCE

During the year, Hong Kong's IPO market was dominated by large-scale H-share companies with an issue size typically approaching the benchmark of US$1 billion. The corporate finance business and sponsorships relating to such listing projects were largely monopolized by international investment banks, while small- to medium-sized local firms found it difficult to win any share in this market. Meanwhile, growth of the financial advisory business was curbed by increasing competition from other medium-scale investment banks. Under such unfavourable business environment, revenue from the segment of corporate finance decreased from HK$7.7 million to HK$4.8 million, and this segment turned into a slight loss due to high staff cost. In 2006, 25 corporate financial advisory service assignments were undertaken.

ASSET MANAGEMENT

The Hantec SuperFX Fund managed by our asset management division, which invests in the leveraged foreign exchange market with moderate risks, recorded net redemption for the year as investors in the foreign exchange market switched out of the fund to turn to more aggressive investment instruments. Performance of the Hantec Balanced Growth Fund, which invests in the traditional equity market, remained steady. Aggregate revenue of asset management division (net of commission paid) decreased from HK$3.2 million to HK$1.9 million, profit before taxation dropped from HK$1 million to HK$0.2 million. Hantec Balanced Growth Fund delivered a return of 12.8% (2005: 11.53%), annual return of Hantec SuperFX Fund was 6.11% (return from 13th July 2005 to 31st December 2005 was 7.02%).

INVESTMENT CONSULTANCY AND WEALTH MANAGEMENT

During the year under review, our investment consultancy and wealth management division in Hong Kong strived to maintain our team of product distribution, and therefore our business remained stable. The division continued to co-operate with reputable international financial institutions, and developed and distributed more personal wealth management products, so as to attract more solid customers. The Group's investment consultancy and wealth management subsidiary in Taiwan recorded a loss in the year. In order to improve the business performance in Taiwan, the Group is now actively pursuing other business opportunities and is currently applying for the licence required for operating futures and commodity contract investment consultancy business. In view of the increasing loss in the Taiwan business, although the division's turnover in the year increased from HK$21 million to HK$24.9 million, the loss increased from HK$ 4.8 million to HK$ 5.8 million.

FINANCIAL RESOURCES

Throughout the year, the Group's financial position remains strong with highly liquid assets. All the licensed corporations complied with the requirements under the Securities and Futures (Financial Resources) Rules promulgated by the Securities and Futures Commission throughout the year. The Group did not have any long-term borrowings. Trade and other payables were trade payable to securities trading clients, brokers and clearing houses, 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. The Group's current ratio as at the year-end

MANAGEMENT DISCUSSION AND ANALYSIS

was 1.71 times of its liabilities. Bank balances and cash accounted for 36% of the total assets of the Group. Subsequent to the year under review, the Group resolved to issue a three-year unsecured fixed rate loan note up to an aggregate amount of US$10 million, enabling the Group to raise long-term capital for its future business expansion.

REMUNERATION AND HUMAN RESOURCES DEVELOPMENT

Pursuant to the Code of Corporate 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 calibre 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 will be adjusted to reflect changing market sentiments.

As the economy was recovering, market demand for human resources increased at an accelerated rate. There was significant turnover of our back office support team in 2006, the first time the Group was confronted with such a situation since its listing in 2000. In order to maintain its competitiveness, the Group had to adjust the salary of its staff. In addition, as the operational scale expanded, there was a substantial increase in staff expense. Furthermore, in order to retain staff and executive management, the Group issued share options to 24 staff members including executive directors enabling them to subscribe for a total of 19,390,000 shares in the Company within a period of five years starting from May 2007.

During the year, the Group recruited high calibre graduates from local and overseas universities who became the third group of management trainees, as well as sponsored two management personnel to enroll in master's degree programs. In addition, the Group also rolled out continuous training and education programs for staff of various levels in order to retain dynamic professionals underpinned by creativity, professional conduct and team play to deliver quality services to clients.

LOOKING FORWARD

Analysts have suggested that the current account deficit of the U.S. would continue to increase given high government expenditure necessitated by prolonged U.S. involvement in Iraq. Trade deficit remains a very serious concern. According to a former Federal Reserve officer, there would be strong downward pressures on the US exchange price in the long run if both trade and current account deficits continue to increase and the reserve of Americans grossly underutilised. In recent years, Europe has continued to pursue integration proactively and adopt a more open co-operative economic policy in recent years. It is expected that Europe would achieve steady growth.

The year 2007 marks the tenth anniversary of the return of Hong Kong's sovereignty to China. As the Mainland financial sector continues towards convergence with its world counterparts in accordance with WTO agreements, China remains the focus of the global economy in the coming years. Given its expertise and experience, Hong Kong's financial sector should go a long way contributing to the economic progress of China and reaping benefits in the process.

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Hantec Group would maintain its base in Hong Kong, and expand its business into the overseas market. Apart from exploring actively into the flourishing North American market, the Group would also seek for business opportunities in Brazil, China and further in Middle-East and Eastern Europe.

The market generally expects interest rate cuts in the U.S. following two years of continuous increase. Coupled with a robust Chinese economy and strong performance of the retail business, the management is optimistic about the Group's business performance in 2007 on the back of its global network building in the past few years. We intend to engage in active expansion by utilising the additional financing from the issuance of loan notes during the year, growing from strength to strength to deliver higher returns to shareholders.

Lam Ngok Fung
Executive Director

18th April 2007