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Hantec Investment Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 111



Interim Report 2007

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MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the “Board”) of Hantec Investment Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) is pleased to present the interim financial report of the Group for the six months ended 30th June 2007. The interim financial report includes consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months ended 30th June 2007, and consolidated balance sheet as at 30th June 2007, all of which are unaudited.

GENERAL MARKET CONDITION AND SEGMENTAL RESULTS

Not only the Group but also investors and participants in the market experienced drastic changes in the investment market condition in the first half of 2007. Equity markets in the United States and Asia both recorded historic highs in the first half of the year, and the Hang Seng Index was no exception. Daily turnover volume of the Hong Kong stock exchange market broke HK\$100 billion mark. Average daily turnover was approximately HK\$58.7 billion (2006: HK\$32.6 billion) which represented a 80% growth as compared to the corresponding period last year. Investors were keen on investing in equities and derivatives. Turnover from foreign exchange trading and bullion trading remained to be the main contributors to the Group, the contribution from securities trading increased significantly. The securities broking segment reported a record half-year result. The volatility in the foreign exchange and bullion markets during the first half year remained low which explained the set back in the performance of the two segments. In addition, there is pressure on the operating costs of the Group as office rental and staff costs in the market increased substantially.

LEVERAGED FOREIGN EXCHANGE TRADING

The US Dollar remained weak, and volatility in currencies, being a main driver for investors to trade, was low throughout the first half of 2007. Investors traded less frequently. However, competition from other foreign exchange trading services providers was severe. In order to stay competitive, the spread offered to investors was unavoidably narrowed. Coupled with higher marketing costs, all three entities in the Group conducting leveraged foreign exchange trading did not perform as well as the corresponding period last year. Despite the fact that the turnover of this segment increased to HK\$67.9 million (2006: HK\$61.4 million) as a result of including the turnover of the new subsidiary in New Zealand, profit in this segment recorded a significant decrease from HK\$22.4 million in the first half of 2006 to HK\$5.8 million.

SECURITIES BROKING

Dominated by trades in H-shares and red chips, the activities in the stock market in Hong Kong were astonishing in the first half of 2007. New heights in the market turnover, the Hang Seng Index and the H-shares Index were recorded. Following the high level of initial public offerings (“IPO”) activity since last year, the secondary market activities were booming. Daily market turnover broke through HK\$100 billion in June 2007 and such a high level turnover was maintained thereafter. For the Group, commission income generated in this segment increased by 94% to HK\$27 million (2006: HK\$13.9 million) though interest income on margin loans increased at a slower pace by 24% to HK\$5.2 million (2006: HK\$4.2 million). The significant growth in commission income reflected investors’ behavior on frequent trading. Turnover in the segment increased by 76% to HK\$33.4 million (2006: HK\$19 million) whereas profit contribution increased to HK\$8.6 million (2006: HK\$6.2 million).

MANAGEMENT DISCUSSION AND ANALYSIS

COMMODITIES AND FUTURES BROKING

Prices for commodities were already at high levels throughout the first half of 2007 with price movements within a narrow range. Although the global demand for natural resources remains strong, further surge in prices is not expected. Low price volatility resulted in low turnover volume. As such, commission income from this segment decreased to HK\$4.9 million (2006: HK\$8.4 million) mainly due to a decline in commission on commodities contracts in oversea markets to HK\$2.8 million (2006: HK\$5.6 million). Consequently, only a slight profit of HK\$0.1 million was recorded (2006: HK\$1.2 million).

CORPORATE FINANCE

As the IPO market has still been dominated by established entities, it is difficult for small to medium sized corporate finance houses to obtain a fair share. Hence, providing corporate advisory services to, and acting as compliance advisors for, listed companies remained our business focus. Turnover for the period decreased to HK\$1.9 million (2006: HK\$2.4 million), resulting in a small loss of HK\$0.4 million (2006: profit of HK\$0.6 million). Competing for experienced staff in the market has driven up costs in this segment and the Group was similarly affected. However, an improved result is expected as an IPO sponsored by our team has successfully listed on the Stock Exchange in September 2007, and another IPO is expected to be launched in the last quarter of 2007.

ASSET MANAGEMENT

Turnover in this segment dropped to HK\$0.3 million (2006: HK\$1 million) and a loss of HK\$0.3 million (2006: profit of HK\$0.1 million) was incurred. The equity fund continues to employ a conservative strategy to avoid unexpected loss in the volatile equity market and the return in the first half of 2007 reflects this conservatism. As the return of the foreign exchange fund might not have met the expectation of certain investors, significant redemption was recorded. As a result, the fund size dropped below a level for the fund to operate economically and the Group thus decided to liquidate it in order to safeguard the interest of remaining investors.

FINANCIAL PLANNING

The performance of the financial planning business in Hong Kong has been growing steadily amid keen competition in the market. Overall turnover recorded a slight increase to HK\$13.8 million (2006: HK\$13.6 million), yet the overall loss was widened to HK\$2.8 million (2006: loss of HK\$2.1 million). The result of Hong Kong's operation was satisfactory and recorded a turnover of HK\$12.9 million (2006: HK\$9.8 million) and a profit of HK\$1.3 million (2006: HK\$1 million). The business in Taiwan has yet to pick up. The Group has recently re-assessed the business model of its Taiwan operation and has implemented certain measures in order to boost its business. The result of such change will be reflected in the Group's second half year.

MANAGEMENT DISCUSSION AND ANALYSIS

BULLION TRADING

Prices of gold for the first half of 2007 moved between US\$608.4 and US\$691.4 per ounce whereas the price range for the corresponding period in 2006 was between US\$524.8 and US\$725 per ounce. The daily movement in gold prices was at a lower magnitude and hence business volume on intra-day trades decreased. In addition, same as foreign exchange trading, the Group faced keen competition from other service providers in the market. Unavoidably the cost of operation, especially commission payable to the business introducers, surged remarkably. Turnover increased to HK\$82.7 million (2006: HK\$65.6 million) subsequent to the consolidation of the Group's subsidiary in New Zealand. However, profit from this segment slipped to HK\$16.8 million (2006: HK\$25.4 million).

LOOKING FORWARD

The issues on sub-prime mortgages and collateralised debt obligations, which originated in the United States, have widely spread to Europe and have become the major hurdles for growth in the investment market. However, sustained economic growth in the Mainland creates genuine demand for properties, consumer goods and investment products. The interaction of the two factors implies a volatile market, as already demonstrated in an intra-day index volatility of exceeding 1,000 points. The unwinding of carry-trade positions has caused sharp movements in currencies within a short period of time. Prices of bullion and commodities are expected to be volatile. While volatility in the market stimulates investors' interest to trade, the Group would uphold its risk management policy. The Group plans to consolidate and strengthen its existing foothold in different regions. The negotiation on a joint venture involving subscription of shares by a financial institution in Kazakhstan is progressing well. It is expected that the cooperation would create synergies to the existing business of the Group. All in all, the Group is optimistic in the business in the future.

FINANCIAL RESOURCES

The Group continues to maintain sound financial status throughout the period. In order to provide stable medium term financing to the Group, loan notes amounting to HK\$44.9 million for a tenure of three years have been issued to overseas professional investors. It has been the policy of the Group to maintain high liquidity to defend against sudden unexpected adverse changes in the market.

CONTINGENT LIABILITIES

Apart from corporate guarantees rendered to the Group's wholly owned subsidiaries to secure banking facilities and the litigation cases already mentioned in the annual report of 2006, there have been no new significant contingent liabilities.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE RATES

The business of the Group is mainly conducted in HK Dollars and US Dollars. Major assets of the Group are also denominated in these two currencies. Only non-current assets of our overseas subsidiaries and representative offices are denominated in the local currencies of their respective places of domicile. As the HK Dollar is pegged with the US Dollar, and as exposures in other currencies have been properly hedged, the Group's exposure to fluctuation in foreign exchange rates is not significant.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The directors are pleased to declare an interim dividend of HK1.5 cents per ordinary share for the six months ended 30th June 2007 (2006: HK1.5 cents).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE EQUITY OR DEBT SECURITIES

As at 30th June 2007, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”), were as follows:

- (i) Long position in the shares and long position (in respect of equity derivatives) in underlying shares of the Company:

Name of director	Capacity	Interest in shares	Interest in underlying shares (share option)	Percentage of issued share capital
Mr. Tang Yu Lap (<i>note 2</i>)	Interest in controlled corporation (<i>note 1</i>)	258,672,000	—	62.46%
	Beneficial owner	2,034,000	—	0.49%
Mr. Lam Ngok Fung	Beneficial owner	1,074,000	2,100,000	0.77%
Ms. Ng Chiu Mui (<i>note 3</i>)	Beneficial owner	—	390,000	0.09%
Mr. Law Kai Yee	Beneficial owner	800,000	2,100,000	0.70%
Ms. Hwang Wei Ming, Ellen	Beneficial owner	500,000	1,400,000	0.46%
Mr. Lau Mun Chung	Beneficial owner	648,000	1,400,000	0.49%

Notes:

- (1) 258,672,000 shares were held by Hantec Holdings Limited (“HHL”), a company in which Mr. Tang Yu Lap beneficially owned 35% of its issued share capital. By virtue of the provisions of the SFO, Mr. Tang Yu Lap was deemed to be interested in all the shares in which HHL was interested.
- (2) Mr. Tang Yu Lap is the spouse of Ms. Ng Chiu Mui.
- (3) Ms. Ng Chiu Mui is the spouse of Mr. Tang Yu Lap.

CORPORATE GOVERNANCE AND OTHER INFORMATION

(ii) Long position in the shares of associated corporations

Name of director	Name of associated corporation	Capacity	No. of securities	Approximate percentage of shareholding
Mr. Tang Yu Lap	Hantec Holdings Limited	Beneficial owner	52,500,000	35%

INFORMATION ON SHARE OPTIONS

The current option scheme was adopted in the annual general meeting of the Company held on 29th May 2006. Details of the share options outstanding as at 30th June 2007 which have been granted under the share option scheme are as follows:

Grantee	Date of grant	Options held at 1st January 2007	Options exercised during the period	Options held at 30th June 2007	Exercise price	Exercisable period
<i>Directors</i>						
Mr. Lam Ngok Fung	13/11/2006	2,100,000	—	2,100,000	HK\$0.88	01/05/2007-30/04/2014
Ms. Ng Chiu Mui	13/11/2006	390,000	—	390,000	HK\$0.88	01/05/2007-30/04/2014
Mr. Law Kai Yee	13/11/2006	2,100,000	—	2,100,000	HK\$0.88	01/05/2007-30/04/2014
Ms. Hwang Wei Ming, Ellen	13/11/2006	1,400,000	—	1,400,000	HK\$0.88	01/05/2007-30/04/2014
Mr. Lau Mun Chung	13/11/2006	1,400,000	—	1,400,000	HK\$0.88	01/05/2007-30/04/2014
Aggregate total of employees	13/11/2006	8,500,000	—	8,500,000	HK\$0.88	01/05/2007-30/04/2014

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE EQUITY OR DEBT SECURITIES

As at 30th June 2007, so far as was known to the directors and the chief executives of the Company, the following are details of the persons (other than directors or chief executives of the Company) who had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long position

Name	Capacity	Number of shares held	Approximate percentage of the Company's issued share capital (%)
Hantec Holdings Limited	Beneficial owner	258,672,000	62.46
Convenient Way Limited	Interest through a controlled corporation	258,672,000 (note 1)	62.46
Mr. Yeung Sai Hong	Interest through controlled corporations	258,672,000 (note 1)	62.46
Ms. Chan Yu Suk	Spouse interest	258,672,000 (note 2)	62.46

Notes:

- (1) These shares were held by HHL. The issued share capital of HHL was owned as to 35% by Convenient Way Limited in which Mr. Yeung Sai Hong hold 60% of its capital. By virtue of the provisions of the SFO, Mr. Yeung Sai Hong was deemed to be interested in all the shares in which HHL was interested.
- (2) Ms. Chan Yu Suk is the wife of Mr. Yeung Sai Hong. By virtue of the provisions of the SFO, Ms. Chan Yu Suk was deemed to be interested in all the shares in which Mr. Yeung Sai Hong was interested.
- (3) Mr. Tang Yu Lap and Ms. Ng Chiu Mui, the executive directors, are also the directors of HHL.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30th June 2007. 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 2007.

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 Listing Rules with the following exception:

CORPORATE GOVERNANCE AND OTHER INFORMATION

Code Provision A.2.1

This provision states that the roles of chairman and chief executive officer should be separated 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 role 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 and chaired by the deputy chairman 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 who 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.

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 2007.

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 financial report for the six months ended 30th June 2007 with the directors. The Group's external auditors have carried out a review of the unaudited interim financial report in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants.

By order of the Board

Tang Yu Lap

Chairman

Hong Kong, 10th September 2007

CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2007

	Note	Unaudited	
		Six months ended 30th June	
		2007	2006
		HK\$'000	HK\$'000
Turnover	3	206,167	173,541
Other revenue	3	930	631
Other net income	3	2,144	1,996
		209,241	176,168
Staff costs	4(a)	(39,321)	(32,126)
Commission expenses		(105,692)	(56,684)
Operating leases for land and buildings		(6,560)	(5,969)
Other operating expenses		(32,585)	(28,108)
Total operating expenses		(184,158)	(122,887)
Operating profit		25,083	53,281
Finance costs	4(c)	(3,968)	(2,011)
		21,115	51,270
Share of profit of associates		1,233	1,662
Profit before taxation	4	22,348	52,932
Income tax	5	(5,178)	(9,576)
Profit for the period		17,170	43,356
Attributable to:			
Equity holders of the Company		17,170	43,356
Proposed interim dividend	6	6,213	5,867
Earnings per share			
Basic	7(a)	HK4.15 cents	HK11.08 cents
Diluted	7(b)	N/A	HK11.08 cents

CONSOLIDATED BALANCE SHEET

As at 30th June 2007 and 31st December 2006

	Note	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000
Non-current assets			
Intangible assets	8	6,472	6,472
Fixed assets	8	20,049	20,015
Interests in associates		8,144	8,949
Other assets		4,728	5,202
Available-for-sale financial assets		11,172	10,236
Deferred tax assets		4,331	4,853
		54,896	55,727
Current assets			
Financial assets at fair value through profit or loss		17,060	16,264
Taxation recoverable		223	498
Trade and other receivables	9	456,722	426,295
Bank balances and cash	10	286,409	280,617
		760,414	723,674
Current liabilities			
Trade and other payables	11	339,450	392,330
Short-term loan and bank overdrafts	12	45,618	21,049
Current portion of obligations under finance lease		580	154
Taxation payable		11,316	9,343
		396,964	422,876
Net current assets		363,450	300,798
Total assets less current liabilities		418,346	356,525
Non-current liabilities			
Loan notes	13	44,865	—
Deferred tax liabilities		606	653
Obligations under finance lease		758	105
		46,229	758
NET ASSETS		372,117	355,767

CONSOLIDATED BALANCE SHEET*As at 30th June 2007 and 31st December 2006*

	Note	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000
Capital and reserves attributable to the equity holders of the Company			
Share capital	14	41,413	41,413
Other reserves		213,654	208,262
Retained earnings		117,050	106,092
TOTAL EQUITY		372,117	355,767

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2007

	Note	Unaudited			Total HK\$'000
		Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	
At 1st January 2007		41,413	208,262	106,092	355,767
Share-based compensation reserves		—	1,354	—	1,354
Surplus on revaluation of available-for-sale financial assets		—	937	—	937
Exchange difference		—	3,101	—	3,101
Profit for the period		—	—	17,170	17,170
Dividends paid 2006 final	6	—	—	(6,212)	(6,212)
At 30th June 2007		41,413	213,654	117,050	372,117

	Note	Unaudited			Total HK\$'000
		Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	
At 1st January 2006		39,113	192,290	59,690	291,093
Deficit on revaluation of available-for-sale financial assets		—	(2,136)	—	(2,136)
Exchange difference		—	(214)	—	(214)
Profit for the period		—	—	43,356	43,356
At 30th June 2006		39,113	189,940	103,046	332,099

Included in the consolidated retained earnings at 30th June 2007 are statutory provisions of HK\$193,326 (2006 : HK\$nil) which are required to be held in respect of certain overseas subsidiaries of the Group.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2007

	Note	Unaudited	
		Six months ended 30th June	
		2007	2006
		HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities		(64,456)	20,441
Net cash outflow from investing activities		(913)	(2,818)
Net cash inflow/(outflow) from financing activities		35,764	(2,063)
(Decrease)/increase in cash and cash equivalents		(29,605)	15,560
Cash and cash equivalents at 1st January		246,879	110,330
Effect of foreign exchange rate changes		3,387	477
Cash and cash equivalents at 30th June	10	220,661	126,367
Analysis of balances of cash and cash equivalents:			
Bank balances — general accounts and cash	10	266,279	145,543
Bank overdrafts	10	(33,618)	(9,176)
Bank loans — unsecured	10	(12,000)	(10,000)
		220,661	126,367

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BASIS OF PREPARATION

This unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. KPMG’s review report to the Board of Directors is included on page 32.

2. ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of this interim financial report are consistent with those used in the annual financial statements for the year ended 31st December 2006.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

3. TURNOVER, OTHER REVENUE, OTHER NET INCOME AND SEGMENT INFORMATION

The Company is an investment holding company. The Group is principally engaged in the provision of leveraged foreign exchange trading and broking services, securities broking, commodities and futures broking, provision of corporate financial advisory services, fund management, financial planning and insurance broking, and trading and broking of precious metal contracts. Total revenue recognised during the period is as follows:

	Six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
Turnover		
Fees and commission	86,262	53,678
Net revenue from		
— foreign currency option trading	7,487	3,054
— foreign currency option broking	(70)	698
— bullion trading	40,075	54,056
Net premium income from insurance broking	303	141
Swap interest and foreign exchange trading revenue	38,127	44,569
Interest income	32,268	12,283
Underwriting commission	478	362
Management, subscription and advisory fee income	1,237	4,700
	206,167	173,541
Other revenue		
Dividend income from listed securities	341	22
Dividend income from available-for-sales financial assets	138	150
Other income	451	459
	930	631
Other net income		
Net exchange gains	1,273	1,251
Net realised gains on financial assets at fair value through profit or loss	469	664
Net unrealised gains on financial assets at fair value through profit or loss	402	81
	2,144	1,996
	209,241	176,168

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

3. TURNOVER, OTHER REVENUE, OTHER NET INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format — Business segments

The business of the Group was organised into the following segments during the period:

1. Leveraged foreign exchange trading/broking — provision of dealing and broking in leveraged forex trading services on the world's major currencies.
2. Securities broking — provision of broking services in securities, equity linked products, unit trusts and stock options traded in Hong Kong and selected overseas markets and margin financing services to those broking clients.
3. Commodities and futures broking — provision of broking services in commodities and futures contracts traded in Hong Kong and selected overseas markets.
4. Corporate finance — provision of corporate finance and advisory services to companies listed in Hong Kong.
5. Asset management — managing private funds and acting as an investment manager for investment companies.
6. Financial planning and insurance broking — acting as an agent for the sale of savings plans, unit trusts, general and life insurance and providing advisory services on securities investment and discretionary fund management.
7. Precious metal contracts trading/broking — provision of dealing and broking trading services on selected precious metals.

There were no significant transactions between the business segments.

Secondary reporting format — Geographical segments

Based on the geographical location of the clients, the Group's business is divided into five main geographical areas:

1. Hong Kong, Greater China (excluding Hong Kong), Switzerland and other countries — mainly consists of retail clients and high net worth clients.
2. Oceania - mainly consists of corporate clients.

There were no significant transactions between the geographical segments.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

3. TURNOVER, OTHER REVENUE, OTHER NET INCOME AND SEGMENT INFORMATION (Continued)

Primary reporting format — Business segments

	Six months ended 30th June 2007								
	HK\$'000								
	Leveraged foreign exchange trading/ broking	Securities broking	Commodities and futures broking	Corporate finance	Asset Management	Financial planning/ insurance broking	Precious metal contracts trading/ broking	Unallocated	Total
Turnover	67,884	33,435	5,691	1,912	317	13,818	82,701	409	206,167
Segment results	5,756	8,557	100	(430)	(273)	(2,788)	16,768	(2,607)	25,083
Operating profit									25,083
Finance costs									(3,968)
									21,115
Share of profit of associates									1,233
Profit before taxation									22,348
Income tax									(5,178)
Profit for the period									17,170

	Six months ended 30th June 2006								
	HK\$'000								
	Leveraged foreign exchange trading/ broking	Securities broking	Commodities and futures broking	Corporate finance	Asset Management	Financial planning/ insurance broking	Precious metal contracts trading/ broking	Unallocated	Total
Turnover	61,405	18,994	8,671	2,388	1,005	13,620	65,622	1,836	173,541
Segment results	22,362	6,200	1,158	594	135	(2,138)	25,437	(467)	53,281
Operating profit									53,281
Finance costs									(2,011)
									51,270
Share of profit of associates									1,662
Profit before taxation									52,932
Income tax									(9,576)
Profit for the period									43,356

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

3. TURNOVER, OTHER REVENUE, OTHER NET INCOME AND SEGMENT INFORMATION (Continued)

Secondary reporting format — Geographical segments

	Turnover	
	Six months ended 30th June	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong	107,937	86,982
Greater China (excluding Hong Kong)	85,447	34,719
Oceania	204	46,789
Switzerland	4,338	923
Other countries	8,241	4,128
	206,167	173,541

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived after charging:

(a) Staff costs

	Six months ended 30th June	
	2007	2006
	HK\$'000	HK\$'000
Salaries and allowances	37,034	31,223
Equity-settled share-based payment	1,354	—
Defined contribution plans	933	903
	39,321	32,126

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

4. PROFIT BEFORE TAXATION (Continued)

(b) Other operating expenses

	Six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
Auditors' remuneration	1,913	1,061
Bad debts written off	537	48
Depreciation of fixed assets	3,176	2,021
Legal and professional fee	1,417	1,340
Loss on disposal of fixed assets	102	32

(c) Finance cost

	Six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
Interest on bank overdrafts	367	431
Interest on bank loans	1,923	1,572
Interest on loan notes	1,630	—
Interest on obligation under finance lease	48	8
	3,968	2,011

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

5. INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the six months ended 30th June 2007. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	Six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
Current taxation:		
— Hong Kong profits tax	3,382	6,764
— Overseas taxation	1,321	1,792
Deferred taxation relating to the origination and reversal of temporary differences	475	1,020
Taxation expenses	5,178	9,576

Reconciliation between tax expense and accounting profit at applicable tax rates:

	Six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
Profit before taxation (excluding share of profit of associates)	21,115	51,270
Notional tax on profit before taxation, calculated at the rate applicable to profits in the countries concerned	3,593	9,486
Tax effect of income not subject to taxation	(1,191)	(1,133)
Tax effect of expenses not deductible for taxation purposes	849	341
Utilisation of previously unrecognised tax losses	1	(231)
Tax losses for which no deferred income tax assets were recognised	2,513	1,113
Over-provision for taxation	(587)	—
Taxation expenses	5,178	9,576

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

6. DIVIDENDS

	Six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
Interim dividend declared and paid after the interim period of HK\$0.015 (2006: HK\$0.015) per ordinary share	6,213	5,867

The interim dividend proposed has not been recognised as a liability at the balance sheet date.

	Six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the period, of HK\$0.015 (2006: HK\$nil) per ordinary share	6,212	—

At a meeting of the directors held on 10th September 2007, the directors resolved to declare an interim dividend of HK\$0.015 (2006: HK\$0.015) per ordinary share to the shareholders whose names appear on the register of members of the Company on Friday, 5th October 2007. Such dividend will be paid on 10th October 2007.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of HK\$17,170,480 (2006: HK\$43,356,314) and the weighted average number of 414,130,000 (2006: 391,130,000) ordinary shares in issue during the six months ended 30th June 2007.

(b) Diluted earnings per share

Diluted earnings per share for the current period has not been disclosed as the outstanding share options have no dilutive effects on the basic earnings per share, and their exercise prices were above the average market price of the shares during the period.

The diluted earnings per share for the six months ended 30th June 2006 is based on 391,370,357 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 240,357 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

8. INTANGIBLE AND FIXED ASSETS

	Stock Exchange trading rights HK\$'000	Futures Exchange trading right HK\$'000	Membership of The Chinese Gold & Silver Society HK\$'000	Goodwill on acquisition of subsidiaries HK\$'000	Total intangible assets HK\$'000	Fixed assets HK\$'000
Six months ended 30th June 2007						
Net book amount at 1st January 2007	913	406	180	4,973	6,472	20,015
Additions	—	—	—	—	—	2,982
Write-off	—	—	—	—	—	(606)
Exchange difference	—	—	—	—	—	330
Depreciation charge	—	—	—	—	—	(3,176)
Depreciation written back	—	—	—	—	—	504
Net book amount at 30th June 2007	913	406	180	4,973	6,472	20,049
Six months ended 30th June 2006						
Net book amount at 1st January 2006	913	406	180	—	1,499	9,398
Additions	—	—	—	—	—	4,051
Write-off	—	—	—	—	—	(133)
Exchange difference	—	—	—	—	—	81
Depreciation charge	—	—	—	—	—	(2,021)
Depreciation written back	—	—	—	—	—	101
Net book amount at 30th June 2006	913	406	180	—	1,499	11,477

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

9. TRADE AND OTHER RECEIVABLES

	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000
Trade receivables from clients	123,088	97,787
Margin finance loans	97,925	66,619
Margin and other trade related deposits with brokers and financial institutions	199,932	233,654
Trade receivables from clearing houses	79	6,555
Total trade receivables	421,024	404,615
Rental and utilities deposits	7,265	5,788
Prepayments and other receivables	28,433	15,892
Total trade and other receivables	456,722	426,295

The carrying amounts of trade and other receivables approximate their fair value.

The Group maintains designated accounts with The SEHK Options Clearing House Limited (“SEOCH”) and HKFE Clearing Corporation Limited (“HKFECC”) as a result of its normal business transactions. At 30th June 2007, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$95,634 (31st December 2006: HK\$367,341) and HK\$23,045,750 (31st December 2006: HK\$14,353,770) respectively.

As at 30th June 2007, the aging analysis of the trade receivables is as follows:

	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000
Current	417,486	400,447
30-60 days	20	193
Over 60 days	3,518	3,975
	421,024	404,615

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

10. BANK BALANCES AND CASH

	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000
Cash in hand	812	554
Bank balances		
— pledged	12,967	12,689
— general accounts	272,630	267,374
	285,597	280,063
	286,409	280,617
<u>By maturity</u>		
Bank balances		
— Current and savings accounts	242,792	245,752
— Fixed deposits (maturing within three months)	35,642	34,311
— Fixed deposits (maturing over three months)	7,163	—
	285,597	280,063

As at 30th June 2007, bank deposits amounting to HK\$11,333,044 (31st December 2006: HK\$11,143,076) have been pledged to a bank as security for the provision of a HK\$27 million (31st December 2006: HK\$26 million) securities broking facility. In addition, bank deposits amounting to HK\$1,633,798 (31st December 2006: HK\$1,546,202) have been pledged to a financial institution as security for the provision of leveraged foreign exchange broking facilities.

As at 30th June 2007, included in the aggregate banking facilities of HK\$154 million (31st December 2006: HK\$132 million) available to the Group, HK\$142 million (31st December 2006: HK\$120 million) were granted under the Company's corporate guarantee (see note 15.2). A subsidiary of the Company which engages in securities broking had at 30th June 2007 utilised HK\$45,617,040 (31st December 2006: HK\$21,048,188) of these aggregate banking facilities.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

10. BANK BALANCES AND CASH (Continued)

The subsidiaries of the Group maintained segregated trust accounts with authorised institutions as a result of their respective business activities. As at 30th June 2007, segregated trust accounts not otherwise dealt with in these accounts amounted to HK\$282,615,093 (31st December 2006: HK\$349,983,448).

Cash and cash equivalents

	Unaudited 30th June 2007 HK\$'000	Unaudited 30th June 2006 HK\$'000
Cash in hand	812	860
Bank balances		
— pledged	12,967	12,458
— general accounts	272,630	144,683
Cash and cash equivalents in the consolidated balance sheet	286,409	158,001
Bank balances		
— pledged	(12,967)	(12,458)
— fixed deposits (maturing over three months)	(7,163)	—
Secured bank overdrafts	(15,224)	(3,906)
Unsecured bank overdrafts	(18,394)	(5,270)
Unsecured short-term bank loan	(12,000)	(10,000)
Cash and cash equivalents in the consolidated cash flow statement	220,661	126,367

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

11. TRADE AND OTHER PAYABLES

	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000
Trade payable to securities trading clients	85,305	73,494
Margin and other deposits payable to clients	199,678	248,926
Trade payable to brokers and clearing houses arising from the ordinary course of business of broking in securities, commodity and futures contracts and leveraged foreign exchange trading	20,653	33,875
Total trade payables	305,636	356,295
Accruals and other payables	33,814	36,035
Total trade and other payables	339,450	392,330

The carrying amounts of trade and other payables approximate their fair value.

The settlement terms of payable to clearing houses and securities trading clients from the ordinary course of business of broking in securities range from two to three days after the trade date of those transactions. Margin deposits received from clients for their trading of leveraged foreign exchange, precious metal contracts, commodities and futures contracts, and the balances were payable within one month.

12. SHORT-TERM LOAN AND BANK OVERDRAFTS

	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000
Secured bank overdrafts	15,224	4,511
Unsecured bank overdrafts	18,394	6,538
Unsecured short-term bank loan	12,000	10,000
Total borrowings	45,618	21,049

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

13. LOAN NOTES

During the period, the Company issued loan notes to certain overseas investors and professional investors. The loan notes are unsecured, mature on the day falling three years after the issue date of the relevant notes and bear interest of 8.5% per annum on the principal amount. As at 30th June 2007, loan notes bearing an aggregate principal of approximately US\$5.8 million had been issued.

14. SHARE CAPITAL

	Authorised	
	Ordinary shares of HK\$0.10 each	
	No. of shares	Nominal value
	'000	HK\$'000
At 1st January 2007, 2006 and 30th June 2007	1,000,000	100,000
	Issued and fully paid	
	Ordinary shares of HK\$0.10 each	
	No. of shares	Nominal value
	'000	HK\$'000
At 1st January 2007 and 30th June 2007	414,130	41,413
At 1st January 2006	391,130	39,113
Shares issued	23,000	2,300
At 31st December 2006	414,130	41,413

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

15. CONTINGENT LIABILITIES

15.1 Outstanding litigation cases

- (a) The Company received a writ of summons on 28th July 2000, filed by a company named Hantec Investment Limited which is unrelated to the Group. The plaintiff sought for injunction to restrain the Company from using the plaintiff's alleged trade name and damages.

The Company has commenced a defence action and will continue to defend it. Potential damages, losses, fees, expenses, proceedings and claims which have been and may be incurred by the Group as a result of the action have been covered by a joint and several indemnity, given by the ultimate controlling shareholders and accordingly no provision has been made by the Group as at 30th June 2007.

- (b) An indirect wholly owned subsidiary of the Company, Hantec International Limited ("HIL") received a writ of summon dated 28th March 2006 from two clients jointly as plaintiffs claiming for damages against HIL and two of its licensed representatives for an amount of HK\$20,600,000 together with costs as a result of a number of transactions of leveraged foreign exchange trading. HIL has commenced defence action and filed a defence. HIL after considering the fact and the information available, and after assessing the opinion provided by the Group's legal advisors, are of the opinion that no provision is required to be made at this stage. HIL will closely monitor the development of the case and consider appropriate treatment in the financial statements should the circumstances became unfavourable to HIL.
- (c) A writ of summons dated 11th July 2006 was served to three subsidiaries of the Company as defendants by a former account executive claiming (being the plaintiff) against the three subsidiaries for a total amount of HK\$700,000 as his rightful overriding commissions together with interest and/or alternatively, damages to be assessed. The subsidiaries have instructed their legal advisors to commence defence on the claim. The legal advisors have requested the plaintiff to state clearly his claim but the plaintiff has indicated to the court that he would not answer the same and as such the legal advisors opine that it is not clear whether the plaintiff will aggressively press ahead with his claim or he will keep the case in abeyance. Up to the date of this report, there was no further development.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

15. CONTINGENT LIABILITIES (Continued)

15.2 Financial guarantees issued

- (a) As at 30th June 2007, the Company has issued corporate guarantees to certain banks for credit facilities up to an amount of HK\$142,000,000 (31st December 2006: HK\$120,000,000) granted to a subsidiary which engages in securities broking. The maximum liability is the outstanding amount utilised by the subsidiary plus all incidental costs.
- (b) The Company also issued corporate guarantees to certain financial institutions for foreign exchange trading and precious metal contracts trading facilities granted to the subsidiaries engaging the leveraged foreign exchange trading and precious metal trading. The maximum liability is the trading loss and related incidental costs subject, in some cases, to an overall cap on the amount of the guarantee.
- (c) As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The Company has not recognised any deferred income in respect of the guarantees as their fair value cannot be reliably measured and the transaction price was nil.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

16. LEASE COMMITMENTS

At 30th June 2007, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000
Not later than one year	15,216	7,009	444	623
Later than one year and not later than five years	23,274	2,128	176	331
	38,490	9,137	620	954

17. MATERIAL RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	Six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
Miscellaneous expenses (note (a))	(139)	(20)
Amount receivable from an associate (note (b))	(5,000)	—
Service fee income (note (c))	—	1,710

- (a) During the period, the Group incurred HK\$138,738 (2006: HK\$20,000) for purchasing Chinese paintings from a company in which the Chairman of the Group held 70% equity interest. The amount was charged at normal commercial terms.
- (b) The amount represents loan to an associate of the Group. The amount is unsecured, interest free and has no fixed repayment terms.
- (c) An associate in New Zealand paid service fee to a subsidiary of the Group in Macau of HK\$nil (2006: HK\$1,709,514) during the period for supporting and administrative services rendered.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

18. CAPITAL COMMITMENTS

Capital commitments in respect of acquisition of fixed assets:

	Unaudited 30th June 2007 HK\$'000	Audited 31st December 2006 HK\$'000
Contracted but not provided for	13,579	3,301

During the period, the Company entered into a sale and purchase agreement on 12th March 2007 to purchase a residential property in Taiwan for a consideration of NT\$82,920,000 (approximately HK\$20.7 million) for the directors of the Company to stay during their business trips to Taiwan. At 30th June 2007, a deposit of NT\$31,150,000 (approximately HK\$7.4 million) had been paid.

19. COMPARATIVE FIGURES

The comparative figures of turnover, including primary reporting format — business segments and secondary reporting format — geographical segments have been re-classified to conform with current period's presentation.

REVIEW REPORT



**TO THE BOARD OF DIRECTORS OF
HANTEC INVESTMENT HOLDINGS LIMITED**

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 9 to 31 which comprises the consolidated balance sheet of Hantec Investment Holdings Limited as of 30th June 2007 and the related consolidated income statement, and consolidated statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30th June 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim financial reporting”.

KPMG

Certified Public Accountants

8th Floor, Prince’s Building

10 Chater Road

Central, Hong Kong

10th September 2007