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MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The financial market in the first half of 2008 experienced a drastic change compared to the previous year. The investment boom in the equity market in 2007 did not continue through into 2008. The sub-prime crisis in the US market had a more serious impact on the investment market than anticipated. Investors have become more prudent and pessimistic about the investment market, especially following a plunge in commodity prices and currencies. The heavy burden of operating costs could not be relieved as inflationary pressure prevailed since 2007. Overall, the Group's financial results decreased as a result in the shrinkage in most business segments. Consequently, operating profit fell from HK\$25.1 million to HK\$7.7 million, representing a 69% drop. Profit attributable to equity holders fell by 72% to HK\$4.8 million (2007: HK\$17.2 million).

LEVERAGED FOREIGN EXCHANGE TRADING

The fierce competition in the foreign exchange market continued into 2008. The Group has no alternative but continue to narrow prices and interest spread to clients. Business from both Hong Kong and overseas markets decreased. The turnover in this segment slipped back to HK\$50.1 million (2007: HK\$67.9 million), representing a 26% decrease. The segment results dropped significantly to HK\$2.6 million (2007: HK\$5.8 million). In order to increase the business volume, the Group's electronic trading platform has been further strengthened to enlarge its capacity for business from the overseas market.

SECURITIES BROKING

The sub-prime crisis in the US market, combined with the cooling down of the Mainland economy and the implementation of a tighter monetary policy by the Mainland government led to a deterioration in the market sentiment. The Hang Seng Index fell more than 20% from 27,632 as at the beginning of the year to 22,102 as at 30 June 2008. Market turnover dropped significantly compared to the corresponding period in 2007. This caused the segment's turnover to fall to HK\$21.6 million (2007: HK\$33.4 million). The segment result decreased more seriously to HK\$2.7 million (2007: HK\$8.6 million) as some fixed costs could not be reduced despite the drop in turnover.

COMMODITIES AND FUTURES BROKING

Business in this segment was more stable in the first half of 2008. Despite the volatile price of commodities, investors still showed some interest in this market. As a broker, our Group strived to achieve a small progress in the turnover and result in this segment. Turnover increased slightly to HK\$6.5 million (2007: HK\$5.7 million) and the segment recorded a profit of HK\$0.5 million (2007: HK\$0.1 million).

CORPORATE FINANCE

During the first half of 2008, we continued to provide corporate advisory services to, and acting as compliance advisors for, listed companies. Turnover in this segment increased to HK\$2.7 million (2007: HK\$1.9 million). However, losses climbed to HK\$1.1 million (2007: loss of HK\$0.4 million) due to the increases in the cost of operation, especially in human resources.

ASSET MANAGEMENT

The equity fund is the only fund under management by the Group. However, some investors holding a significant number of shares in the fund redeemed their holdings during the first half year. As a result the size of the fund fell below a viable operating level, resulting in the Group having to wind up the fund. The Group is now exploring and analysing other business opportunities. Turnover decreased to less than HK\$0.1 million (2007: HK\$0.3 million), and this segment posted a loss of HK\$0.6 million (2007: loss of HK\$0.3 million).

FINANCIAL PLANNING

This segment performed as expected, and business volume was maintained at a similar level as the corresponding period last year. Turnover was HK\$14 million (2007: HK\$13.8 million). Losses increased from HK\$2.8 million to HK\$3.4 million mainly due to a surge in operating costs. However, as a services provider in the financial industry, the Group's financial planning business plays an important role since it can refer business to other segments.

BULLION TRADING

The price of bullion at the beginning of the period was US\$836 per ounce. It peaked at US\$1,032 per ounce in March, representing a historic high. However, it closed at approximately US\$925 per ounce at 30 June 2008. The upward trend in the bullion price in recent years seems to have halted, and investors' appetite in this market began to show signs of decline. In addition, the bullion business has faced a similar situation as leveraged foreign exchange trading in that the price spread and interest spread have narrowed due to keen competition amongst the service providers. Turnover increased slightly to HK\$87.5 million (2007: HK\$82.7 million). Profit has dwindled due to low spreads and decrease in trading profit arising from net house positions, decreasing to HK\$8.9 million (2007: HK\$16.8 million).

LOOKING FORWARD

Recent developments in the worldwide investment market suggest that this fluctuation will continue for some time. It is also estimated that economic growth in Hong Kong and the Mainland in 2008 would slow down as a result of Mainland's new tight monetary policy which is designed to curb inflationary pressure. In this environment, the Group will conduct its business both prudently and conservatively. Currently, the Group is working on strengthening its internal control and information technology systems to ensure that they are capable of taking up new challenges.

FINANCIAL RESOURCES

The Group continued to maintain sound financial status throughout the period. All the corporations licensed by the Securities and Futures Commission complied with financial resources requirements of the relevant authorities. After the period under review, the Company redeemed the loan notes before its maturity in order to reduce interest expenses. The redemption was financed by the Group's internal resources and had no significant impact on its liquidity. Any idle funds have been placed with authorised institutions in a highly liquid form in order to prepare for unexpected fluctuations in the market.

CONTINGENT LIABILITIES

Other than the litigation cases as detailed in note 15 of this report and corporate guarantees given in favour of the Group's wholly-owned subsidiaries for certain banking facilities, the Group does not have any significant contingent liabilities.

EXPOSURE TO FLUCTUATION IN FOREIGN EXCHANGE RATES

For the foreign exchange business, the treasury function followed all policies and exposure limits laid down by the Group on the exposure of different currencies. Major assets and liabilities of the Group are denominated in either HK dollars or US dollars. Because of the implementation of our treasury policy and the fact that the HK dollar is pegged with the US dollar, the Group does not face any significant exposure to the fluctuation in foreign exchange rates.

CORPORATE GOVERNANCE AND OTHER INFORMATION

INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2008 (2007: HK1.5 cents).

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

As at 30th June 2008, 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 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	—	61.90%
	Beneficial owner	2,034,000	—	0.49%
Mr. Lam Ngok Fung	Beneficial owner	1,074,000	2,100,000	0.76%
Ms. Hwang Wei Ming, Ellen	Beneficial owner	700,000	1,200,000	0.45%
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	0.69%
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.

- (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 as adopted in the annual general meeting of the Company held on 29th May 2006. Details of the share options outstanding as at 30th June 2008 which have been granted under the share option scheme are as follows:

Grantee	Date of grant	Options held at 1st January 2008	Options exercised during the period	Options held at 30th June 2008	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. Hwang Wei Ming, Ellen	13/11/2006	1,200,000	—	1,200,000	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
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	7,900,000	3,460,000	4,240,000	HK\$0.88	01/05/2007–30/04/2014
Total		15,090,000		11,430,000		

During the period ended 30th June 2008, options carrying rights to subscribe for 200,000 shares held by two employees lapsed due to their resignation.

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

As at 30th June 2008, 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	61.90
Convenient Way Limited	Interest through a controlled corporation	258,672,000 (Note 1)	61.90
Mr. Yeung Sai Hong	Interest through controlled corporations	258,672,000 (Note 1)	61.90
Ms. Chan Yu Suk	Spouse interest	258,672,000 (Note 2)	61.90

Notes:

- (1) These shares were held by HHL. Convenient Way Limited, which is 60% owned by Mr. Yeung Sai Hong, holds 35% of HHL's issued share 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 directors of HHL.

GROUP REORGANIZATION, SALE AND PURCHASE AGREEMENT BETWEEN CONTROLLING SHAREHOLDER AND PURCHASERS

After the balance sheet date, the controlling shareholder of the Company, HHL, has requested the Board to place before the shareholders of the Company a proposal for the reorganization of the Group. If approved and implemented, the result of the reorganization will be:

- i) the Company continuing to be a public listed company with its subsidiaries concentrating on the business of carrying out regulated activities under the SFO;
- ii) all other subsidiaries of the Company carrying on trading and broking of precious metal contracts, provision of financial related services outside of Hong Kong and investment in water plant business being grouped under Hantec Pacific Limited (“HPL”); and
- iii) the shares of HPL will be distributed in specie to the shareholders of the Company upon injection of businesses detailed in (ii) into HPL.

On 13th August 2008, HHL has entered into a sale and purchase agreement with Sinoday Limited and Silver Grant International Securities Investment Limited to sell to them a 52.32% and 9.58% stake in the Company respectively.

The reorganization is still under the process of approval by the relevant regulatory authorities and pending shareholders’ approval. The completion of the sale and purchase agreement will be subject to the successful implementation of the proposed reorganization.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30th June 2008. 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 2008.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group has always strived 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 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 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.

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 2008.

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 statements for the six months ended 30th June 2008 with the directors. The Group's external auditors have carried out a review of the unaudited interim financial statements 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.

On behalf of the Board

Tang Yu Lap
Chairman

24th September 2008

CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2008

	Note	Unaudited	
		Six months ended 30th June	
		2008	2007
		HK\$'000	HK\$'000
Turnover	3	182,628	206,167
Other revenue	3	621	930
Other net income	3	1,262	2,144
		184,511	209,241
Staff costs	4(a)	(41,127)	(39,321)
Commission expenses		(84,587)	(105,692)
Operating leases for land and buildings		(10,394)	(6,560)
Other operating expenses		(40,726)	(32,585)
Total operating expenses		(176,834)	(184,158)
Operating profit		7,677	25,083
Finance costs	4(c)	(1,447)	(3,968)
		6,230	21,115
Share of profit of associates		1,407	1,233
Profit before taxation	4	7,637	22,348
Income tax	5	(2,785)	(5,178)
Profit for the period		4,852	17,170
Attributable to:			
Equity holders of the Company		4,768	17,170
Minority interests		84	—
		4,852	17,170
Proposed interim dividend	6	—	6,213
Earnings per share			
Basic	7(a)	HK1.15 cents	HK4.15 cents
Diluted	7(b)	HK1.14 cents	N/A

CONSOLIDATED BALANCE SHEET

As at 30th June 2008 and 31st December 2007

	Note	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
Non-current assets			
Intangible assets	8	6,517	6,871
Fixed assets	8	38,624	19,980
Interests in associates		19,665	15,288
Other assets		3,969	3,890
Available-for-sale financial assets		984	12,293
Deferred income tax assets		1,395	1,549
		71,154	59,871
Current assets			
Financial assets at fair value through profit or loss		5,197	5,602
Taxation recoverable		2,140	514
Trade and other receivables	9	264,917	471,516
Bank balances and cash	10	287,201	374,184
		559,455	851,816
Current liabilities			
Trade and other payables	11	201,821	454,810
Short-term loan and bank overdrafts	12	2,003	16,692
Current portion of obligations under finance lease		513	537
Current portion of secured mortgage loan		692	—
Taxation payable		5,073	4,006
Loan notes	13	17,176	—
		227,278	476,045
Net current assets		332,177	375,771
Total assets less current liabilities		403,331	435,642

	Note	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
Non-current liabilities			
Obligations under finance lease		245	506
Secured mortgage loan		12,039	—
Deferred income tax liabilities		98	170
Loan notes	13	—	42,525
		12,382	43,201
NET ASSETS			
		390,949	392,441
Capital and reserves			
Share capital	14	41,789	41,443
Other reserves		220,364	216,639
Retained earnings		128,377	134,024
Total equity attributable to the equity holders of the Company			
		390,530	392,106
Minority interests			
		419	335
TOTAL EQUITY			
		390,949	392,441

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2008

	Note	Unaudited				Total HK\$'000
		Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Minority interests HK\$'000	
At 1st January 2008		41,443	216,639	134,024	335	392,441
Shares issued under share option scheme		346	3,397	—	—	3,743
Equity-settled share-based payment		—	(332)	—	—	(332)
Realised profit on disposal of available-for-sale financial assets		—	(2,558)	—	—	(2,558)
Deficit on revaluation of available-for-sale financial assets		—	(1)	—	—	(1)
Exchange difference		—	3,219	—	—	3,219
Profit for the period		—	—	4,768	84	4,852
Dividends paid 2007 final	6	—	—	(10,415)	—	(10,415)
At 30th June 2008		41,789	220,364	128,377	419	390,949

	Note	Unaudited				Total HK\$'000
		Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Minority interests HK\$'000	
At 1st January 2007		41,413	208,262	106,092	—	355,767
Equity-settled share-based payment		—	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

Included in the consolidated retained earnings at 30th June 2008 are statutory provisions of HK\$433,048 (2007: HK\$193,326) 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 2008

	Note	Unaudited	
		Six months ended 30th June	
		2008	2007
		HK\$'000	HK\$'000
Net cash outflow from operating activities		(48,844)	(64,456)
Net cash outflow from investing activities		(13,538)	(913)
Net cash (outflow)/inflow from financing activities		(21,720)	35,764
Decrease in cash and cash equivalents		(84,102)	(29,605)
Cash and cash equivalents at 1st January		334,572	246,879
Effect of foreign exchange rate changes		2,582	3,387
Cash and cash equivalents at 30th June	10	253,052	220,661
Analysis of balances of cash and cash equivalents:			
Bank balances — general accounts and cash	10	255,055	266,279
Bank overdrafts	10	(3)	(33,618)
Bank loans — unsecured	10	(2,000)	(12,000)
		253,052	220,661

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”).

The 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 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a 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.

The unaudited interim financial report has been approved for issue by the Board of Director on 24th September 2008.

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 2007.

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	
	2008 HK\$'000	2007 HK\$'000
Turnover		
Fees and commission	68,494	86,262
Net revenue from		
— foreign currency option trading	5,955	7,417
— bullion trading	48,969	40,075
Net premium income from insurance broking	203	303
Swap interest and foreign exchange trading revenue	37,503	38,127
Interest income	20,538	32,268
Underwriting commission	54	478
Management, subscription and advisory fee income	912	1,237
	182,628	206,167
Other revenue		
Dividend income from listed securities	96	341
Dividend income from available-for-sale financial assets	—	138
Other income	525	451
	621	930
Other net income		
Net exchange (loss)/gain	(642)	1,273
Net realised gains on financial assets at fair value through profit or loss	55	469
Net unrealised (loss)/gain on financial assets at fair value through profit or loss	(1,223)	402
Profit on disposal of available-for-sale financial assets	3,072	—
	1,262	2,144
	184,511	209,241

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.

Certain comparative figures in the primary reporting format of segment information have been reclassified to conform to current period's presentation. The directors consider that these changes result in a more appropriate presentation in these financial statements.

Secondary reporting format — Geographical segments

Based on the geographical location of the clients, the Group's business is divided into seven main geographical areas, including Hong Kong, Greater China (excluding Hong Kong), Oceania, Switzerland, the United States, United Kingdom and other countries.

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

Primary reporting format – Business segments

	Six months ended 30th June 2008									
	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	Inter- segment elimination	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover from external customers	50,103	21,615	6,473	2,657	52	13,999	87,515	214	–	182,628
Inter-segment turnover	794	21	–	300	–	–	111	13,413	(14,639)	–
Total	50,897	21,636	6,473	2,957	52	13,999	87,626	13,627	(14,639)	182,628
Segment results	2,563	2,686	487	(1,054)	(618)	(3,407)	8,854	(1,834)	–	7,677
Operating profit										7,677
Finance costs	(2)	(564)	(2)	–	–	(2)	(20)	(857)	–	(1,447)
Share of profits of associates	–	–	–	–	–	–	–	1,407	–	1,407
Profit before taxation										7,637
Income tax										(2,785)
Profit after taxation										4,852
Minority interests										(84)
Profit attributable to equity holders of the Company										4,768

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

Primary reporting format – Business segments (Continued)

	Six months ended 30th June 2007									Total HK\$'000
	Leveraged foreign exchange trading/broking HK\$'000	Securities broking HK\$'000	Commodities and futures broking HK\$'000	Corporate finance HK\$'000	Asset management HK\$'000	Financial planning/ insurance broking HK\$'000	Precious metal contracts trading/ broking HK\$'000	Unallocated HK\$'000	Inter – segment elimination HK\$'000	
Turnover from external customers	67,884	33,435	5,691	1,912	317	13,818	82,701	409	–	206,167
Inter-segment turnover	14	215	–	301	–	–	–	5,511	(6,041)	–
Total	67,898	33,650	5,691	2,213	317	13,818	82,701	5,920	(6,041)	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	(6)	(2,302)	(1)	–	–	(2)	(27)	(1,630)	–	(3,968)
										21,115
Share of profits of associates	–	–	–	–	–	–	–	1,233	–	1,233
Profit before taxation										22,348
Income tax										(5,178)
Profit after taxation										17,170
Minority interests										–
Profit attributable to equity holders of the Company										17,170

Secondary reporting format – Geographical segments

	Turnover	
	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Hong Kong	115,335	107,937
Greater China (excluding Hong Kong)	61,171	85,447
Oceania	245	204
Switzerland	559	4,338
United States	86	443
United Kingdom	976	3,160
Other countries	4,256	4,638
	182,628	206,167

4. PROFIT BEFORE TAXATION

Profit before taxation is arrived after charging:

(a) Staff costs

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Salaries and allowances	39,652	37,034
Equity-settled share-based payments	367	1,354
Defined contribution plans	1,108	933
	41,127	39,321

(b) Other operating expenses

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Auditors' remuneration	1,913	1,913
Bad debts written off	10	537
Depreciation of fixed assets	3,746	3,176
Impairment loss on trade receivables	788	—
Legal and professional fee	3,648	1,417
Loss on disposal of fixed assets	55	102

(c) Finance cost

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Interest on bank overdrafts	95	367
Interest on bank loans	530	1,923
Interest on loan notes	793	1,630
Interest on obligation under finance lease	29	48
	1,447	3,968

5. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits for the six months ended 30th June 2008. Taxation on overseas profits has been calculated on the estimated assessable profits 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	
	2008 HK\$'000	2007 HK\$'000
Current taxation:		
– Hong Kong profits tax	1,626	3,350
– Overseas taxation	850	1,940
– Under/(over)-provision for taxation	227	(587)
Deferred taxation relating to the origination and reversal of temporary differences	35	475
Effect of decrease in tax rate on deferred tax balances at 1 January	47	—
Taxation expenses	2,785	5,178

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

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Profit before taxation (excluding share of profit of associates)	6,230	21,115
Notional tax on profit before taxation, calculated at the rate applicable to profits in the countries concerned	834	3,593
Tax effect of income not subject to taxation	(842)	(1,191)
Tax effect of expenses not deductible for taxation purposes	235	849
Utilisation of previously unrecognised tax losses	(431)	—
Effect on opening deferred tax balances resulting from a decrease in tax rate during the period	47	—
Tax losses for which no deferred income tax assets were recognised	2,715	2,514
Under/(over)-provision for taxation	227	(587)
Taxation expenses	2,785	5,178

5. INCOME TAX (Continued)

On 27th February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposes a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008–09 and a one-off reduction of 75% of the tax payable for the 2007–08 assessment subject to a ceiling of HK\$25,000.

The changes result in the opening balances of the Group's deferred tax liabilities and deferred tax assets as at 1st January 2008 being decreased by HK\$9,694 and HK\$56,290 respectively.

These opening balance adjustments to deferred tax balances at 1st January 2008 have been recognised as an increase in the Group's income tax expense of HK\$46,596.

The decrease in tax rate also reduces the Group's current profits tax provision by HK\$91,146 for the current period.

6. DIVIDENDS

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Interim dividend declared and paid after the interim period of nil (2007: HK1.5 cents) per ordinary share	—	6,213

The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2008 (2007: HK1.5 cents).

	Six months ended 30th June	
	2008 HK\$'000	2007 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the period, of HK2.5 cents (2007: HK1.5 cents) per ordinary share	10,415	6,212

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the profit attributable to equity holders of the Company of HK\$4,767,743 (2007 : HK\$17,170,480).

(a) Basic earnings per share

The basic earnings per share is based on the weighted average number of 415,490,054 (2007 : 414,130,000) ordinary shares in issue during the six months ended 30th June 2008.

(b) Diluted earnings per share

The diluted earnings per share for the six months ended 30th June 2008 is based on 419,212,105 (2007: nil) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 3,722,051 (2007: nil) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

8. INTANGIBLE AND FIXED ASSETS

	Membership of The					
	Stock Exchange trading rights HK\$'000	Futures Exchange trading right HK\$'000	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 2008						
Net book amount at 1st January 2008	913	406	180	5,372	6,871	19,980
Additions	—	—	—	45	45	22,213
Write-off	—	—	—	(399)	(399)	(738)
Exchange difference	—	—	—	—	—	239
Depreciation charge	—	—	—	—	—	(3,746)
Depreciation written back	—	—	—	—	—	676
Net book amount at 30th June 2008	913	406	180	5,018	6,517	38,624

8. INTANGIBLE AND FIXED ASSETS (Continued)

	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 intangibles 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

9. TRADE AND OTHER RECEIVABLES

	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
Trade receivables from clients	94,765	105,741
Less: impairment allowance on trade receivables	(1,044)	(394)
Margin and other trade related deposits with brokers and financial institutions	94,413	247,022
Margin finance loans	63,589	101,248
Trade receivables from clearing houses	2	109
Total trade receivables, net	251,725	453,726
Rental and utilities deposits	6,392	6,076
Prepayments and other receivables	6,800	11,714
Total trade and other receivables	264,917	471,516

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 2008, the designated accounts with SEOCH and HKFECC not otherwise dealt with in these accounts amounted to HK\$654,325 (31st December 2007: HK\$277,912) and HK\$22,451,318 (31st December 2007: HK\$30,482,157) respectively.

As at 30th June 2008, the aging analysis of the trade receivables was as follows:

	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
Current	241,305	447,349
30–60 days	52	121
Over 60 days	10,368	6,256
	251,725	453,726

10. BANK BALANCES AND CASH

	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
Cash in hand	150	422
Bank balances		
– pledged	19,084	15,706
– general accounts	267,967	358,056
	287,051	373,762
	287,201	374,184
<u>By maturity</u>		
Bank balances		
– Current and savings accounts	159,667	266,755
– Fixed deposits (maturing within three months)	114,322	99,793
– Fixed deposits (maturing over three months)	13,062	7,214
	287,051	373,762

As at 30th June 2008, bank deposits amounting to HK\$11,636,768 (31st December 2007: HK\$11,546,863) have been pledged to a bank as security for the provision of a HK\$26 million (31st December 2007: HK\$22 million) securities broking facility. In addition, bank deposits amounting to HK\$4,925,026 (31st December 2007: HK\$1,673,659) and HK\$2,522,005 (31st December 2007: HK\$2,485,952) have been pledged to a financial institution as security for the provision of leveraged foreign exchange broking and bullion trading facilities respectively.

The subsidiaries of the Group maintained segregated trust accounts with authorised institutions as a result of their respective business activities. As at 30th June 2008, segregated trust accounts not otherwise dealt with in these accounts amounted to HK\$205,068,482 (31st December 2007: HK\$255,679,278).

10. BANK BALANCES AND CASH (Continued)

Cash and cash equivalents

	Unaudited 30th June 2008 HK\$'000	Unaudited 30th June 2007 HK\$'000
Cash in hand	150	812
Bank balances		
– pledged	19,084	12,967
– general accounts	267,967	272,630
Cash and cash equivalents in the consolidated balance sheet	287,201	286,409
Bank balances		
– pledged	(19,084)	(12,967)
– fixed deposits (maturing over three months)	(13,062)	(7,163)
Secured bank overdrafts	–	(15,224)
Unsecured bank overdrafts	(3)	(18,394)
Unsecured short-term bank loan	(2,000)	(12,000)
Cash and cash equivalents in the condensed consolidated cash flow statement	253,052	220,661

11. TRADE AND OTHER PAYABLES

	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
Trade payable to securities trading clients	24,787	83,357
Margin and other deposits payable to clients	117,969	295,318
Trade payable to brokers and clearing houses arising from the ordinary course of business of broking in securities, commodities and futures contracts and leveraged foreign exchange trading	29,329	35,595
Total trade payables	172,085	414,270
Accruals and other payables	29,736	40,540
Total trade and other payables	201,821	454,810

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 LOANS AND BANK OVERDRAFTS

	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
Secured bank overdrafts	—	4,674
Unsecured bank overdrafts	3	18
Unsecured short-term bank loan	2,000	12,000
Total borrowings	2,003	16,692

13. LOAN NOTES

The Company issued loan notes to certain overseas 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.

	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
At 1st January	42,525	—
Add: Issued	—	44,865
Less: Redeemed	(25,349)	(2,340)
At 30th June 2008 and 31st December 2007	17,176	42,525

After the balance sheet date, the Company redeemed all outstanding loan notes of an aggregate principal amount of US\$2.2 million (approximately HK\$17.2 million).

14. SHARE CAPITAL

	Authorised	
	Ordinary shares of HK\$0.10 each	
	No. of shares	Nominal value
	'000	HK\$'000
At 1st January 2007, 2008 and 30th June 2008	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	414,130	41,413
Shares issued	300	30
At 31st December 2007 and 1st January 2008	414,430	41,443
Shares issued	3,460	346
At 30th June 2008	417,890	41,789

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 2008.

- (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 become 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 up to the date of this report, the plaintiff has only filed a Notice of Intention to Proceed and has not taken any further action.

15. CONTINGENT LIABILITIES (Continued)

15.2 Financial guarantees issued

- (a) As at 30th June 2008, a subsidiary of the Company engaging in securities broking and providing securities margin financing has secured banking facilities from certain authorised institutions for a total amount of HK\$311 million (31st December 2007: HK\$334 million). The Company has issued corporate guarantees for a total principal amount of HK\$389 million (31st December 2007: HK\$322 million) for these facilities. As at 30th June 2008, the subsidiary utilised HK\$2,000,000 (31st December 2007: HK\$16,678,805) of these aggregate banking facilities.
- (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 in leveraged foreign exchange trading and precious metal trading. The maximum liability is the trading loss and related incidental costs, in some cases, subject 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.

16. LEASE COMMITMENTS

At 30th June 2008, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Others	
	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
Not later than one year	16,174	14,231	308	447
Later than one year and not later than five years	14,932	17,110	60	183
	31,106	31,341	368	630

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	
	2008 HK\$'000	2007 HK\$'000
Miscellaneous expenses (note (a))	(65)	(139)

- (a) During the period, the Group incurred HK\$65,000 (2007: HK\$138,738) 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.

18. CAPITAL COMMITMENTS

Capital commitments in respect of acquisition of fixed assets:

	Unaudited 30th June 2008 HK\$'000	Audited 31st December 2007 HK\$'000
Contracted but not provided for	—	14,807

19. POST BALANCE SHEET EVENT

After the balance sheet date, the controlling shareholder of the Company, HHL, has requested the Board to place before the shareholders of the Company a proposal for the reorganization of the Group. If approved and implemented, the result of the reorganization will be:

- (i) the Company continuing to be a public listed company with its subsidiaries concentrating on the business of carrying out regulated activities under the SFO;
- (ii) all other subsidiaries of the Company carrying on trading and broking of precious metal contracts, provision of financial related services outside of Hong Kong and investment in water plant business being grouped under the Hantec Pacific Limited ("HPL"); and
- (iii) the shares of HPL will be distributed in specie to the shareholders of the Company upon injection of businesses in HPL.

REVIEW REPORT



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 8 to 31 which comprises the consolidated balance sheet of Hantec Investment Holdings Limited as of 30th June 2008 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 2008 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

24th September 2008