

# *Group Results*

The Board of Directors (the “Board”) of Hantec Investment Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are pleased to present the Group’s Interim Report and condensed accounts for the six-months ended 30th June 2001. The consolidated results and consolidated cash flow statement for the Group for the six-months ended 30th June 2001, and the consolidated balance sheet as at 30th June 2001 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 7 to 20 of this report.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of Operations and Results**

During the six months ended 30th June 2001, the Group continued its business of providing leveraged foreign exchange trading services in major currencies to its clients through its subsidiary Hantec International Limited (“HIL”). HIL maintained to carry out its business through the head office, 5 branches and about 100 account executives in Hong Kong; and 3 representative offices in Paris, Manila, and Tokyo. The foreign exchange products provided by HIL remained the same as before, i.e. spot and forward foreign exchange contracts, and over-the-counter (“OTC”) foreign currency option contracts, but the business activities of option and spot foreign exchange trading markets experienced remarkable changes. As a result, the turnover of the Group declined to HK\$36.8 million from HK\$47.3 million, representing a decrease of 22.1% as compared with the corresponding period of the preceding year. Profit after tax recorded a significant drop to HK\$5.02 million from HK\$23.1 million.

Trading of OTC foreign currency option contracts decreased significantly because option trading activities were predominantly engaged by a few high-net-worth individual clients in the prior period. Concentration of option trading activities on the clients means that when these clients ceased their trading activities, the business came to a halt. Net premium income generated from option trading decreased by 99% compared to the last period and led to a decrease of 46% of the turnover of foreign exchange trading activities.

The Group continued its effort to increase its market share in the retail market of leveraged foreign exchange trading in Hong Kong and overseas. Consequently, spot foreign exchange trading volume maintains at a satisfactory level. Commission on foreign currency spot contracts and swap interest and foreign exchange trading revenue mainly arising from retail clients’ position increased by 42% and 36% respectively due to an enlarged retail client base.

Operating expenses increased by 56% or HK\$11.6 million due to the significant headcount increase of the sales team and employment of additional management and supporting staff. Most of the sales team members were entitled to commission and rebates for the business they brought into the Group. The increase of commission and rebates amounted to HK\$5.8 million mainly due to the increase in turnover derived from spot foreign exchange trading.

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### **Liquidity and financial resources**

The Group continues to maintain a strong capital base and a highly liquid balance sheet. Over 93% of the Group's assets are bank balances and margin deposit receivables due from renowned international financial institution. The Group does not have any debts at 30th June 2001. Current ratio stands at high level of 380% at the end of the reporting period. The major portion of liabilities of the Group consisted clients' margin deposits.

The highly liquid financial structure allows the Group to take advantage of market opportunities which will arise on the horizon when investors' interests returns to the more sophisticated foreign exchange instruments which the Group practised professionally in the market.

### **Staffing, training scheme and remuneration related information**

Human resources development is a long-term process to maintain the Group's core competence. During the period under review, the Group provided a comprehensive training course on leveraged foreign exchange to the sales team. The course covered major areas such as market structure, product knowledge, analytical techniques, dealing techniques and compliance and regulatory matters. Course instructors are well-experienced staff of the Group and the course materials have been submitted to the Securities and Futures Commission for approval as eligible for Continuous Professional Training credits required for licensed holders.

As part of the Group's strategy, the Group continues to expand its sales force in order to increase share of the retail market in Hong Kong and overseas. Marketing staff are mostly remunerated on a commission basis. Share options to subscribe the shares of the Company were also granted to staff on a performance assessment basis. During the period under review, 22 staff were granted options to subscribe for 7.9 million shares in the Company.

### **Exposure to fluctuations in exchange rates**

Most of the Group's foreign currency assets and liabilities are denominated in US dollars to which Hong Kong dollars are pegged. As regard to exposure to exchange rate fluctuations for the Group's open trading positions as a result of broking client deals, prudent guidelines on position limits and floating loss limits are adopted by the dealing room, and the limits are reviewed by the Group's risk management committee from time to time to cope with changes in volatility in the market.

### **Contingent liabilities**

As mentioned in the latest annual report of the Group, an injunction claim on alleged passing off the trade name "Hantec" was received. The defence has been continued and it is expected that court hearing will be held to decide the case. Nevertheless, the substantial shareholder, Hantec Holdings Limited has indemnified all potential damages, losses, fees and expenses arising from the claim. Therefore, no provision is required to be made.

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## Future plan

To further enlarge the Group's capital base and to meet potential needs of business diversification opportunities, the Group raised approximately HK\$43.8 million through placing of new shares of Hantec Investment Holdings Limited to strategic investors. The placing was completed in early September 2001.

In the light of the current economic environment, the Group will continue its plan to develop the on-line foreign exchange trading system in order to reinforce development of leveraged foreign exchange trading business outside Hong Kong. A financial system consulting company has been engaged to design and implement the on-line foreign exchange trading system to meet the needs of clients. The system has been delivered for testing and formal launch is scheduled at the end of the year. In addition, the management will continue to explore opportunities of business development in overseas markets and the Greater China region, which will be reinforced by the on-line trading system and our representative offices.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2001 (2000: HK\$0.025 per share).

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 30th June 2001, the interests of the directors and chief executive in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance or as notified to the Company were as follows:

### (a) ordinary shares of HK\$0.1 each of the Company

|               | Number of shares   |                  |                     |                 |
|---------------|--------------------|------------------|---------------------|-----------------|
|               | Personal interests | Family interests | Corporate Interests | Other interests |
| Tang Yu Lap   | 500,000            | –                | 224,250,000         | –               |
| Tang Ping Sum | 300,000            | –                | –                   | –               |
| Man Kong Yui  | 500,000            | –                | –                   | –               |

Note: 224,250,000 shares are held by Hantec Holdings Limited ("HHL"), a company which is beneficially owned as to 35% by Mr. Tang Yu Lap, as to 35% by Mr. Yeung Sai Hong and his relatives, as to 20% by Mr. Fan Wai Ming, and as to 10% by Mr. Man Kong Yui.

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### (b) options to acquire ordinary shares of HK\$0.1 each of the Company

|               | Date<br>Granted | Number<br>of ordinary<br>shares in<br>the options | Exercised | Exercise<br>Price<br>per share | Exercise<br>Period | Balance   |
|---------------|-----------------|---|-----------|--------------------------------|--------------------|-----------|
| Tang Yu Lap   | 2/11/00         | 500,000   | 500,000   | HK\$0.66                       | 2/2/01–1/2/06      |           |
|               | 9/5/01          | 600,000   | –         | HK\$0.6128                     | 9/8/01–8/8/06      | 600,000   |
| Man Kong Yui  | 2/11/00         | 500,000   | 500,000   | HK\$0.66                       | 2/2/01–1/2/06      |           |
|               | 9/5/01          | 500,000   | –         | HK\$0.6128                     | 9/8/01–8/8/06      | 500,000   |
| Tang Ping Sum | 2/11/00         | 1,000,000   | 300,000   | HK\$0.66                       | 2/2/01–1/2/06      |           |
|               | 9/5/01          | 500,000   | –         | HK\$0.6128                     | 9/8/01–8/8/06      | 1,200,000 |
| Sze Chong Hoi | 2/11/00         | 500,000   | –         | HK\$0.66                       | 2/2/01–1/2/06      |           |
|               | 9/5/01          | 500,000   | –         | HK\$0.6128                     | 9/8/01–8/8/06      | 1,000,000 |
| Chan Na Wah   | 2/11/00         | 500,000   | –         | HK\$0.66                       | 2/2/01–1/2/06      |           |
|               | 9/5/01          | 500,000   | –         | HK\$0.6128                     | 9/8/01–8/8/06      | 1,000,000 |

Note: The options were granted under the Share Option Scheme approved by the shareholders on 10th July 2000.

Save as disclosed above, at no time during the period and up to the date of this report was the Company or its holding companies, and fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that as at 30th June 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

| Name of shareholder     | Number of ordinary shares |                 |            |
|-------------------------|---------------------------|-----------------|------------|
|                         | Direct interest           | Deemed Interest | Percentage |
| Hantec Holdings Limited | 224,250,000 ***           | –               | 74.4%      |
| Mr. Tang Yu Lap         | 500,000                   | 224,250,000 *** | 74.6% ***  |
| Convenient Way Limited  | –                         | 224,250,000 *** | 74.4% ***  |
| Mr. Yeung Sai Hong      | –                         | 224,250,000 *** | 74.4% ***  |

\*\*\* 224,250,000 represents the same shares for which Mr. Tang Yu Lap, Convenient Way Limited and Mr. Yeung Sai Hong have interests.

HHL is the registered and beneficial owner of 224,250,000 shares of the Company. Mr. Tang Yu Lap beneficially owned 35% of the issued capital of HHL, Convenient Way Limited beneficially owned 35% of the issued capital of HHL, Mr. Yeung Sai Hong beneficially owned 60% of the issued capital of Convenient Way Limited and is deemed (by virtue of the SDI Ordinance) to be interested in the 224,250,000 shares.

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Save as disclosed above, the Company has not been notified of any interests representing 10% or more of the issued share capital of the Company.

On 27th July 2001, Hantec Holdings Limited disposed of 5,000,000 ordinary shares of the Company. Since then the shareholdings of Hantec Holdings Limited has been reduced to 219,250,000 ordinary shares.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") at any time during the six months ended 30th June 2001.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 30th June 2001 with the directors.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company has not redeemed any of its shares for the six months ended 30th June 2001. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the same period.

On behalf of the Board

**Tang Ping Sum**

Director

20th September 2001