

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 2004. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30th June 2004, and the consolidated balance sheet as at 30th June 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, and have been reviewed by the Audit Committee of the Company are set out on page 8 to 25 of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

The first half of the 2004 had been a period of mixed impact on the finance sector. After a 6-month experience following the introduction of Closer Economic Partnership Arrangement (“CEPA”), we saw continued growth in the hospitality and retailing industries as a result of the relaxation of restrictions on individual travellers from the Mainland, crude oil prices soared to above US\$40, the United States is set to start a rising interest rate cycle, and the Mainland introduced a series of macro-economic tightening measures aimed at cooling off over-heating industries but at the same time trying to avoid a hard landing of the economy.

The impact on the securities market is that Hang Seng Index (“HSI”) rose to this year’s highest point at 14,058 on 1st March 2004 and then plummeted to its lowest point at 10,968 on 17th May 2004; and total average daily turnover of the stock market peaked at HK\$19.7 billion in the first quarter and came down to HK\$13.8 billion in the second quarter. In the light of mixed influences on the economy, Gross Domestic Product in the second quarter grew by 12.1% against a low base of comparison resulting from SARS last year. In tandem with this background, our profit after tax for the six months ended 30th June 2004 grew to HK\$9.5 million (HK\$2 million for the same period last year). Group operations generated HK\$3.4 million whilst overseas associated companies contributed HK\$6.1 million. Of the three overseas associated companies, the share of profit from the associated company in Japan accounted for HK\$5.6 million which is significantly greater than last year (2003 full year HK\$1.7 million). Such large contribution of profit may not be recurring because the profits were largely derived from proprietary trading which may fluctuate significantly.

Leveraged foreign exchange trading

Total foreign exchange trading volume increased slightly by 7% whilst trading profit increased by HK\$7 million. Swap interest decreased due to fewer clients carrying positions overnight. The volatility of USD against other major currencies shrank to a 7.8-point range from a 11.7-point range in last period. As a result, option premium came down and profit generated from option trading dwindled to HK\$5.4 million. The e-trade platform accounted for more than 30% of the turnover of leveraged foreign exchange trading and continued to contribute to the development of forex business, particularly in overseas market and the Mainland. We would reinforce our long-term strategy of exploring new markets by technology in the second half of the year and will upgrade our existing e-trade platform and explore the possibility of contracting a reputable white label trading system as well.

The Group kept maintaining a sizeable team of account executives to carry out sales and marketing functions for leveraged foreign exchange trading. Account executive administration therefore has been an important task. To help promote the image of our sales force and to enhance the effectiveness of our marketing functions, the Group will promote high caliber foreign exchange analysts to give presentation on website and mass media, followed by exhibitions and seminars to increase awareness of our Group's business presence.

Securities dealing

The average daily turnover of both the main board (HK\$16,688 million) and the GEM board (HK\$148.8 million) was a lot greater than that of last year when the market felt the hardest hit of the epidemic. Our securities dealing department's share of the rebound of the securities market was reflected by a 45% increase in interest income derived from margin financing and 65% increase in commission income. Despite the increase in turnover, our cost structure has been well controlled with slight increase in overdraft interest due to additional funds required to finance clients' borrowing to fund stock trading. As such, stock brokerage department greatly reduced losses to HK\$0.74 million from HK\$3.4 million for the same period last year.

Commodities trading

Business in this segment was largely driven by account executives who market both local (mainly HSI futures) and overseas products, and as such turnover may fluctuate as a result of recruitment and departure of clients of significant turnover. In order to match costs with revenue, expenses had been rationalized (from HK\$1.7 million to HK\$1.48 million) by about 13%. In order to effectively explore the Mainland market, we re-activated the development of e-trade system for our commodities trading activities which should be able to launch in the fourth quarter; and we expect this would help increase turnover in our HSI futures trading by a significant percentage.

Corporate finance

The department executed 8 transactions and engaged as on-going sponsor of 7 listed companies. The market enthusiasm had been dominated by sizeable listings of Mainland enterprises in the first half of the year and small to medium size listings received lackluster support from the market and regulator. At the moment our corporate finance department is actively engaged in sponsoring four IPO clients. It is expected that after the recent market correction we would be able to successfully help our clients to raise funds on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Financial planning

Business volume including saving plan products showed modest increase of 13% in the face of more competitors, including real estate agents, coming into this market. The impact of intense competition on our group had not been significant due to our relatively liberal organization structure and that our compliance work has been highly regarded by both insurance companies and our customers. This section has secured a large client base bringing in stable revenue; and following the acquisition of an investment consultant company in Taiwan, it is our next business objective of expanding to the Taiwan market.

Bullion

Bullion price experienced a volatile movement in the first half of the year following a consistent soaring pattern in last year. The fluctuations of bullion price gave rise to a number of opportunities for investors to speculate for trading profit. As a result, business volume increased consistently and our commission income increased by 37%, and swap interest and trading profit both recorded a significant increase over last period.

Notwithstanding the increase in business volume, we managed to maintain a modest cost structure and to turnaround by achieving a profit of HK\$2 million from a loss of HK\$0.94 million for the same period last year. In addition to servicing local investors, we anticipate that the bullion market in the Mainland will gradually open up and the Group is in the process of developing an Internet trade platform for bullion trading in order to help exploring the Mainland market.

Asset management

The Group's asset management continues to provide a stable and diversified investment alternative to investors with preference of less risk on capital and achieve profits through long-term appreciation of investment rather than short-term movements in stock prices. In addition to managing their own portfolio, the asset management team also acts as investment manager for another fund listed on the Stock Exchange under Chapter 21 of the Listing Rules. However, we contemplate to focus our resources on exploring the market in Taiwan through the newly acquired investment consultant company there.

Liquidity and financial resources

The Group continues to maintain a highly liquid asset status throughout the period under review. Out of the total assets of HK\$330 million, HK\$132 million was cash deposit and HK\$71 million was receivable from reputable financial institutions. The Group does not have any long-term liabilities. Current liabilities include mainly margins or deposits payable to clients and accrued expenses. Bank loans and overdrafts were procured mainly for providing securities margin financing to clients, except HK\$8 million was secured for an investment in a subsidiary. Current assets were four times over current liabilities with the exception of deposits amounting to HK\$20 million charged to banks to secure banking facilities, all assets were free from encumbrances. During the period under review, all Group members licensed by the Securities and Futures Commission (the "SFC") maintained liquid capital in excess of the level required by regulations.

Exposure to fluctuations in exchange rates

The Group was exposed to fluctuation in exchange rates on residual leveraged foreign exchange transactions originated by clients and proprietary trading in foreign exchange. Strict exposure and stop loss limits have been set on these positions. Assets denominated in foreign currencies other than HK dollars and US dollars are margin deposits received from clients and the Group's overseas investments. Certain clients placed margins in Japanese Yen, the exposure to fluctuation in exchange rates are monitored by the responsible officers in the dealing room. Assets denominated in foreign currencies are not significant compared to the total assets of the Group.

Contingent liabilities

The Company continues to provide corporate guarantee to its wholly owned subsidiaries as detailed in note 15 in the notes to the condensed accounts to secure banking facilities. The indemnity provided by the controlling shareholder against potential damages, losses, fees and expenses on the case of alleged passing off of the trade name “Hantec” continues to be in force, and as such no provision is considered necessary.

Looking forward

The economic convergence between Hong Kong and the Mainland has already been taking place under the first stage of CEPA, which, following the second stage of allowing more categories of individual business to enter Mainland and allowing Mainland incorporated companies in Guangdong province to come over to Hong Kong, will greatly enhance the free and unrestricted flows of people, goods and services to places where they will best fit in. Such economic convergence is of benefit to our development of business in Mainland; and together with the local economy gradually sailing out of recession, we are confident of bringing forth a better return to our shareholders.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2004 (2003: nil).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS

At 30th June 2004, the register of directors' and chief executive's interests and short positions in the Company's shares, underlying shares and debentures kept by the Company as required under Section 352 of the Securities and Futures Ordinance (the “SFO”) shows the following interests held by the directors and the chief executive:

(a) Interest in ordinary shares of HK\$0.1 each

	Number of ordinary shares in the Company			Total
	Personal interests	Corporate interests	Family interest	
Mr. Tang Yu Lap	500,000	256,372,000 ¹	–	256,872,000
Ms. Ng Chiu Mui	–	–	256,872,000 ²	256,872,000
Mr. Man Kong Yui	500,000	–	–	500,000
Mr. Lam Ngok Fung	24,000	–	–	24,000
Ms. Poon Wai Ming	30,000	–	–	30,000

Notes:

¹ 256,372,000 shares of the Company are held by Hantec Holdings Limited (“HHL”), a company in which Mr. Tang Yu Lap beneficially owned 35% of its issued capital.

² Ms. Ng Chiu Mui is the spouse of Mr. Tang Yu Lap and is taken to be interested in the 500,000 shares personally held by Mr. Tang Yu Lap and the 256,372,000 shares held by HHL.

(b) Interest in options to acquire ordinary shares of HK\$0.10 each

Save as disclosed in the information on share options below, during the period up to 30th June 2004, none of the directors and the chief executive, their spouses or their minor children or any corporations in which they are entitled to exercise or control one-third or more of the voting power at general meetings had any right to subscribe for the shares of the Company, or had exercised any such right during the period up to 30th June 2004.

INFORMATION ON SHARE OPTION

Share options are granted to directors, executives and employees under the Share Option Scheme adopted on 10th July 2000. Details of the share options outstanding as at 30th June 2004 which have been granted under the scheme are as follows:

Grantee	Date of grant	Options held at 1st January 2004	Options exercised during the period	Options held at 30th June 2004	Exercise price HK\$	Exercisable period
<i>Directors</i>						
Mr. Tang Yu Lap (<i>note 2</i>)	9/5/2001	600,000	–	600,000	0.6128	9/8/2001 – 8/8/2006
Mr. Tang Ping Sum	2/11/2000	700,000	–	700,000	0.66	2/2/2001 – 1/2/2006
	9/5/2001	500,000	–	500,000	0.6128	9/8/2001 – 8/8/2006
Mr. Man Kong Yui	9/5/2001	500,000	–	500,000	0.6128	9/8/2001 – 8/8/2006
Mr. Sze Chong Hoi	2/11/2000	500,000	–	500,000	0.66	2/2/2001 – 1/2/2006
	9/5/2001	500,000	–	500,000	0.6128	9/8/2001 – 8/8/2006
Ms. Chan Na Wah	2/11/2000	500,000	–	500,000	0.66	2/2/2001 – 1/2/2006
	9/5/2001	500,000	–	500,000	0.6128	9/8/2001 – 8/8/2006
Ms. Poon Wai Ming	2/11/2000	1,650,000	–	1,650,000	0.66	2/2/2001 – 1/2/2006
	9/5/2001	700,000	–	700,000	0.6128	9/8/2001 – 8/8/2006
<i>Aggregate of employees</i>	2/11/2000	4,450,000	–	4,450,000	0.66	2/2/2001 – 1/2/2006
	9/5/2001	3,150,000	–	3,150,000	0.6128	9/8/2001 – 8/8/2006

Notes:

1. Save as disclosed above, at no time during the six months ended 30th June 2004 was the Company or its holding company, its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors or employees of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.
2. Ms. Ng Chiu Mui is the spouse of Mr. Tang Yu Lap and is taken to be interested in the option to subscribe for 600,000 shares held by Mr. Tang Yu Lap, according to the meaning of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

The register of interests in shares and short positions kept as required under Section 336 of the SFO shows that as at 30th June 2004, the Company had been notified of the following shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

(a) Interest in ordinary shares of HK\$0.1 each

Name of shareholder	Number of ordinary shares			Percentage
	Direct interest	Corporate interest	Family interest	
Hantec Holdings Limited	256,372,000 ¹	–	–	65.5%
Convenient Way Limited	–	256,372,000 ²	–	65.5%
Mr. Yeung Sai Hong	–	256,372,000 ²	–	65.5%
Ms. Chan Yu Suk	–	–	256,372,000 ²	65.5%

¹ HHL is the registered and beneficial owner of 256,372,000 shares of the Company.

² Convenient Way Limited beneficially owned 35% of the issued capital of HHL and is owned as to 60% by Mr. Yeung Sai Hong whom is regarded as having corporate interest in the 256,372,000 shares held by HHL. Ms. Chan Yu Suk is the spouse of Mr. Yeung Sai Hong and is taken to be interested in the 256,372,000 shares held by HHL.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the six months ended 30th June 2004. 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 2004.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the period, the Company was 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.

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 accounts for the six months ended 30th June 2004 with the directors. At the request of Audit Committee, the Group's external auditors have carried out a review of the unaudited interim accounts in accordance with the Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants.

On behalf of the board

Tang Ping Sum
Deputy Chairman

Hong Kong, 13th September 2004