



Caring for
your **Wealth**



Quam Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2002

UNAUDITED INTERIM RESULTS

The board of directors (the "Directors") of Quam Limited (the "Company") is pleased to present the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2002 (the "Period") together with the comparative figures for the last corresponding period are as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

Six months ended 30 September 2002

	Note	Continuing operations		Discontinued operations		Total	
		2002 HK\$'000	2001 HK\$'000 Unaudited & Restated	2002 HK\$'000	2001 HK\$'000 Unaudited & Restated	2002 HK\$'000	2001 HK\$'000 Unaudited & Restated
Turnover	2	<u>23,638</u>	<u>12,812</u>	<u>-</u>	<u>11,770</u>	<u>23,638</u>	<u>24,582</u>
Other revenues	2	159	3,402	-	3	159	3,405
Unrealised losses on other investments	2	(33,885)	(7,612)	-	-	(33,885)	(7,612)
Cost of services		(6,492)	(10,153)	-	-	(6,492)	(10,153)
Raw materials and consumables used		-	-	-	(11,216)	-	(11,216)
Staff costs		(18,960)	(13,827)	-	(1,664)	(18,960)	(15,491)
Depreciation		(2,802)	(2,623)	-	-	(2,802)	(2,623)
Gain on disposal		-	-	-	6,089	-	6,089
Impairment loss on investment securities		-	(7,640)	-	-	-	(7,640)
Other operating expenses		(14,426)	(7,870)	-	(203)	(14,426)	(8,073)
		<u>(76,406)</u>	<u>(46,323)</u>	<u>-</u>	<u>(6,991)</u>	<u>(76,406)</u>	<u>(53,314)</u>
Operating profit/(loss)	3	<u>(52,768)</u>	<u>(33,511)</u>	<u>-</u>	<u>4,779</u>	<u>(52,768)</u>	<u>(28,732)</u>
Finance costs		<u>(540)</u>	<u>(300)</u>	<u>-</u>	<u>-</u>	<u>(540)</u>	<u>(300)</u>
		<u>(53,308)</u>	<u>(33,811)</u>	<u>-</u>	<u>4,779</u>	<u>(53,308)</u>	<u>(29,032)</u>
Minority interests		<u>(5)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5)</u>	<u>-</u>
Profit/(Loss) attributable to shareholders		<u>(53,313)</u>	<u>(33,811)</u>	<u>-</u>	<u>4,779</u>	<u>(53,313)</u>	<u>(29,032)</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Earnings/(Loss) per share - basic	5	<u>(1.50)</u>	<u>(1.13)</u>	<u>-</u>	<u>0.16</u>	<u>(1.50)</u>	<u>(0.97)</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2002

	Note	30 September 2002 HK\$'000 Unaudited	31 March 2002 HK\$'000 Audited
Non-current assets			
Intangible assets	7	31,962	32,122
Fixed assets	8	11,155	13,199
Investment securities		28,742	27,143
Deposits with securities and futures clearing companies		4,135	4,130
		75,994	76,594
Current assets			
Trade receivables	9	51,857	86,096
Prepayments, deposits and other receivables		9,732	6,378
Other investments		33,724	77,116
Tax recoverable		22	22
Bank balances held on behalf of customers		28,015	34,122
Cash and bank balances		25,475	13,538
		148,825	217,272
Current liabilities			
Trade payables	10	27,584	49,960
Accrued liabilities and other payables		27,666	25,916
Convertible note		–	11,740
Current portion of finance lease payables	11	–	316
Bank loans, secured		16,200	36,000
Taxation payable		336	336
		71,786	124,268
Net current assets		77,039	93,004
Total assets less current liabilities		153,033	169,598
Financed by:			
Share capital	12	53,207	32,235
Reserves		99,785	137,327
Shareholders' funds		152,992	169,562
Non-current liabilities			
Deferred taxation		36	36
Minority interests		5	–
		41	36
		153,033	169,598

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 September 2002

	Continuing operations		Discontinued operations		Total	
	2002 HK\$'000 Unaudited	2001 HK\$'000 Unaudited	2002 HK\$'000 Unaudited	2001 HK\$'000 Unaudited	2002 HK\$'000 Unaudited	2001 HK\$'000 Unaudited
Net cash inflow/ (outflow) from operating activities	11,022	(22,835)	-	(8,685)	11,022	(31,520)
Net cash inflow/(outflow) from returns on Investments and servicing of finance	(381)	3,402	-	3	(381)	3,405
Hong Kong profits tax refunded	-	61	-	-	-	61
Net cash outflow from investing activities	(3,591)	(69,352)	-	-	(3,591)	(69,352)
Net cash inflow/(outflow) from financing	24,687	(10,081)	-	6,558	24,687	(3,523)
Increase/(decrease) in cash and cash equivalents	31,737	(98,805)	-	(2,124)	31,737	(100,929)
Cash and cash equivalents at 1 April	(8,962)	172,515	-	2,124	(8,962)	174,639
Cash and cash equivalents at 30 September	22,775	73,710	-	-	22,775	73,710
Analysis of balances of cash and cash equivalents:						
Cash and bank balances	25,475	81,710	-	-	25,475	81,710
Short term bank loans with original maturity within three months	(2,700)	(8,000)	-	-	(2,700)	(8,000)
	22,775	73,710	-	-	22,775	73,710

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 September 2002

	Share Capital <i>HK\$'000</i> Unaudited	Share Premium <i>HK\$'000</i> Unaudited	Goodwill <i>HK\$'000</i> Unaudited	Contributed Surplus <i>HK\$'000</i> Unaudited	Accumu- lated Losses <i>HK\$'000</i> Unaudited	Capital Redemption Reserve <i>HK\$'000</i> Unaudited	Total <i>HK\$'000</i> Unaudited
At 1 April 2002	32,235	478,448	(197,398)	32,080	(176,735)	932	169,562
Issue of shares	20,972	15,771	-	-	-	-	36,743
Loss for the Period	-	-	-	-	(53,313)	-	(53,313)
At 30 September 2002	53,207	494,219	(197,398)	32,080	(230,048)	932	152,992
At 1 April 2001	31,688	475,177	(197,398)	32,080	(141,697)	654	200,504
Issue of shares for acquisition of subsidiaries	50	900	-	-	-	-	950
Repurchase of shares	(278)	(1,779)	-	-	-	-	(2,057)
Loss for the period	-	-	-	-	(29,032)	-	(29,032)
At 30 September 2001	31,460	474,298	(197,398)	32,080	(170,729)	654	170,365

NOTES TO UNAUDITED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared in accordance with Appendix 16 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of presentation adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's consolidated financial statements for the year ended 31 March 2002, except for the adoption of the following new and revised SSAPs, which are effective for the first time in the preparation of the unaudited condensed consolidated financial statements for the Period.

SSAP 1 (Revised)	prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision of SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the Period and the comparative figures have been presented in accordance with SSAP 1 (Revised).
SSAP 15 (Revised)	prescribes the provisions of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the Period into operating, investing and financing activities. The condensed consolidated cash flow statement for the Period and the comparative figures have been presented in accordance with SSAP 15 (Revised).
SSAP 33	prescribes the basis for reporting information about discontinuing and discontinued operations. The impact of this SSAP is the inclusion of significant additional disclosure which are set out in the condensed consolidated profit and loss account, condensed consolidated cashflow statement and notes 2 and 14.
SSAP 34	prescribes the accounting treatment and disclosure for employee benefits. SSAP 34 has had no major impact on the condensed consolidated financial statements.

2. TURNOVER AND SEGMENTAL INFORMATION

The Group is principally engaged in securities and futures broking, provision of website management and related services, and investment holding and trading. Revenues recognised during the six months are as follows:

	Turnover Six months ended 30 September 2002 HK\$'000 Unaudited	Turnover Six months ended 30 September 2001 HK\$'000 Unaudited
Turnover		
Continuing operations:		
Advertising and agency service income	1,285	3,628
Website management and related service income	4,762	1,644
Commission income on securities and futures trading	6,593	603
Advisory and placement fee income	4,019	432
Net realised gains on other investments	1,179	6,505
Investment income	3,663	–
Interest income from margin financing and money lending operations	2,137	–
	<hr/>	<hr/>
	23,638	12,812
Discontinued operations:		
Manufacture and sales of portfolios, portable cases, luggage products, purses and accessories	–	11,770
	<hr/>	<hr/>
	23,638	24,582
Other revenues		
Interest income from banks and others	159	3,405
Unrealised losses on other investments	(33,885)	(7,612)
	<hr/>	<hr/>
	(33,726)	(4,207)
	<hr/>	<hr/>
Total revenues	(10,088)	20,375
	<hr/> <hr/>	<hr/> <hr/>

(a) Primary reporting format – business segments

Six months ended 30 September 2002

	Continuing operations			Discontinued operations	Group 2002 HK\$'000 Unaudited
	Securities broking 2002 HK\$'000 Unaudited	Website Management 2002 HK\$'000 Unaudited	Investments 2002 HK\$'000 Unaudited	Portfolios 2002 HK\$'000 Unaudited	
Turnover	12,749	6,047	4,842	–	23,638
Segment results	(7,323)	(13,001)	(31,122)	–	(51,446)
Net corporate expenses					(1,322)
Operating loss					(52,768)
Finance costs					(540)
Loss before taxation					(53,308)
Taxation					–
Loss before minority interests					(53,308)
Minority interests					(5)
Loss for the Period					(53,313)

	Continuing operations			Discontinued operations	Group 2001 HK\$'000 Unaudited
	Securities broking 2001 HK\$'000 Unaudited	Website Management 2001 HK\$'000 Unaudited	Investments 2001 HK\$'000 Unaudited	Portfolios 2001 HK\$'000 Unaudited	
Turnover	1,035	5,272	6,505	11,770	24,582
Segment results	(1,192)	(22,877)	(8,810)	4,779	(28,100)
Net corporate expenses					(632)
Operating loss					(28,732)
Finance costs					(300)
Loss before taxation					(29,032)
Taxation					–
Loss before minority interests					(29,032)
Minority interests					–
Loss for the period					(29,032)

(b) Secondary reporting format – geographical segments

The Group's four business segments operate mainly in the following geographical areas:

Hong Kong – Website management, securities broking, investments and portfolios

United States of America – Portfolios

There are no sales between the geographical segments.

	Turnover Six months ended 30 September		Segment results Six months ended 30 September	
	2002 HK\$'000 Unaudited	2001 HK\$'000 Unaudited	2002 HK\$'000 Unaudited	2001 HK\$'000 Unaudited
Continuing operations:				
Hong Kong	23,638	12,812	(51,446)	(32,879)
Discontinued operations:				
The United States of America	–	7,826	–	(408)
Hong Kong and other countries	–	3,944	–	(902)
Gain on disposal of discontinued operations	–	–	–	6,089
	–	11,770	–	4,779
	<u>23,638</u>	<u>24,582</u>	<u>(51,446)</u>	<u>(28,100)</u>
Net corporate expenses			(1,322)	(632)
Operating loss			<u>(52,768)</u>	<u>(28,732)</u>

3. OPERATING LOSS

Operating loss is stated after charging the following:

	Six months ended 30 September 2002 HK\$'000 Unaudited	Six months ended 30 September 2001 HK\$'000 Unaudited
Amortisation of intangible assets	1,402	231
Cost of inventories sold	–	11,216
Depreciation		
Owned assets	2,612	2,433
Leased assets	190	190
Retirement benefit costs	622	499
(Gain)/Loss on disposal of fixed assets	(8)	186
	<hr/> <hr/>	<hr/> <hr/>

4. TAXATION

Tax has not been provided as the Group has no assessable profits for the Period (2001: Nil).

5. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders for the Period of HK\$53,313,000 (2001: HK\$29,032,000) and the weighted average of 3,548,335,251 (2001: 2,980,996,061) ordinary shares in issue during the Period. An adjustment factor has been made in accordance to SSAP 5 in relation to the rights issue during the Period.

There were no potential dilutive ordinary shares in existence for both the current and previous periods and therefore, no diluted loss per share was presented.

6. RELATED PARTY TRANSACTIONS

- (a) During the Period, certain Directors and their respective associates of the Company and of the Company's subsidiaries continue to operate in securities dealing and margins financing arrangements with Quam Securities Company Limited, a subsidiary of the Company. The Stock Exchange of Hong Kong Limited has, subject to certain conditions, granted a waiver to the Company from compliance stipulated in Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or obtain independent shareholder approval. The conditional waiver was granted with effect from 24 August 2001 and is effective until 31 March 2004.
- (b) Consultancy fees amounting to approximately HK\$2.43 million (2001: Nil) was received from a related company for advisory services provided to a related company. Certain Directors of the Company, namely Mr. Bernard Pouliot, Mr. Kenneth Lam Kin Hing and Mr. William Chao Hang Man are directors of the related company.
- (c) The Group launched a private equity fund (the "Fund") in July 2002. The Fund is incorporated and registered as a private mutual fund, under The Mutual Fund Act, 1996 of the British Virgin Islands. Certain Directors of the Company, a subsidiary company and the Company each hold an equity interest in the Fund. Other members of the Fund are independent parties. The Fund is managed by a subsidiary company, and management fees derived from the Fund are at normal commercial terms. In addition, brokerage fees and secretarial fees are charged to the Fund on normal commercial terms, by other subsidiary companies.

7. INTANGIBLE ASSETS

As at 30 September 2002

	Goodwill <i>HK\$'000</i> Unaudited	Trading rights in exchanges in Hong Kong <i>HK\$'000</i> Unaudited	Total <i>HK\$'000</i> Unaudited
Net Book Value at 1 April 2002	18,697	13,425	32,122
Acquisition of subsidiaries and balance at 30 September 2002	1,242	–	1,242
Accumulate amortisation Amortisation charge for the Period and balance at 30 September 2002	(941)	(461)	(1,402)
Net Book Value	<u>18,998</u>	<u>12,964</u>	<u>31,962</u>

Goodwill is amortised on a straight line basis over a period of ten years. Trading rights are amortised to write off their cost on a straight line basis over their remaining useful lives.

8. FIXED ASSETS

As at 30 September 2002

	Leasehold improvements <i>HK\$'000</i> Unaudited	Furniture and equipment <i>HK\$'000</i> Unaudited	Total <i>HK\$'000</i> Unaudited
Opening net book amount	1,698	11,501	13,199
Acquisition of subsidiaries	–	258	258
Additions	78	489	567
Disposals	–	(67)	(67)
Depreciation	(726)	(2,076)	(2,802)
Closing net book amount	<u>1,050</u>	<u>10,105</u>	<u>11,155</u>

9. TRADE RECEIVABLES

The trade receivables as at 30 September 2002 mainly consist of receivables of website management and related services; securities and futures broking businesses; and money lending business. The credit terms of securities and futures broking businesses and money lending business are in accordance with the industry practice. The Group grants credit periods of 60 to 90 days to its customers on website management and related services.

Included in trade receivables of the Group as at 30 September 2002 are loans to margin clients amounting to HK\$38,854,000 (31 March 2002: HK\$53,395,000) which have no due date. The ageing analysis of other trade receivables (net of provision) of HK\$13,003,000 (31 March 2002: HK\$32,701,000) of the Group was as follows:

	30 September 2002 HK\$'000 Unaudited	31 March 2002 HK\$'000 Audited
Within 180 days	12,952	32,701
181 to 360 days	35	-
Over 360 days	16	-
	<hr/> 13,003 <hr/>	<hr/> 32,701 <hr/>

10. TRADE PAYABLES

Included in trade payables of the Group as at 30 September 2002 are amounts payable to margin clients of HK\$9,547,000 (31 March 2002: HK\$17,166,000) for which funds have been or will be transferred to trust bank accounts for settlement in accordance with the securities and futures broking industry practice. The ageing analysis of other trade payables of HK\$18,037,000 (31 March 2002: HK\$32,794,000) of the Group was as follows:

	30 September 2002 HK\$'000 Unaudited	31 March 2002 HK\$'000 Audited
Within 180 days	18,014	32,794
181 to 360 days	23	-
	<hr/> 18,037 <hr/>	<hr/> 32,794 <hr/>

11. FINANCE LEASE PAYABLES

	30 September 2002 HK\$'000 Unaudited	31 March 2002 HK\$'000 Audited
Finance lease payables:		
Within one year	–	357
In the second year	–	–
	<hr/>	<hr/>
Total minimum lease payments	–	357
Future finance charges	–	(41)
	<hr/>	<hr/>
Present value of finance lease payables	–	316
Current portion included under current liabilities	–	(316)
	<hr/>	<hr/>
Non-current portion	–	–
	<hr/> <hr/>	<hr/> <hr/>

	30 September 2002 HK\$'000 Unaudited	31 March 2002 HK\$'000 Audited
The present value of finance lease payable is as follows		
Within one year	–	316
In the second year	–	–
	<hr/>	<hr/>
	–	316
	<hr/> <hr/>	<hr/> <hr/>

12. SHARE CAPITAL

	30 September 2002 HK\$'000 Unaudited	31 March 2002 HK\$'000 Audited
Authorised:		
10,000,000,000 ordinary shares of HK\$0.01 each	100,000	100,000
	<hr/> <hr/>	<hr/> <hr/>

Issued and fully paid:

	No. of shares	Par value HK\$	Amount HK\$'000
At 1 April 2002	3,223,527,717	0.01	32,235
Issue of shares (<i>note a</i>)	1,934,116,629	0.01	19,341
Issue of shares (<i>note b</i>)	163,055,555	0.01	1,631
At 30 September 2002	5,320,699,901		53,207
At 1 April 2001	3,168,759,392	0.01	31,688
Issue of shares for acquisition of subsidiaries (<i>note c</i>)	82,540,325	0.01	825
Repurchase of shares (<i>note d</i>)	(27,772,000)	0.01	(278)
At 31 March 2002	3,223,527,717		32,235

Notes:

- (a) On 21 August 2002, the Company completed a rights issue by issuing 3 new shares for every 5 shares held for a consideration price of HK\$0.015 per rights share. A total of 1,934,116,629 rights shares were issued.
- (b) On 12 August 2002, the Company called for the partial conversion of a convertible note amounting to a face value at HK\$9,538,750 at a conversion price of HK\$0.0585. As a result of conversion, 163,055,555 new shares were issued.
- (c) In May and December 2001, 5,000,000 and 77,540,325 ordinary shares of HK\$0.01 each in the capital of the Company were issued at HK\$0.19 and HK\$0.055 per share respectively as consideration for the acquisition of the entire equity interest in HKGrowth.com Company Limited and V Six Securities Limited.
- (d) During the year ended 31 March 2002, the Company repurchased a total number of 27,772,000 of its own shares on The Stock Exchange of Hong Kong Limited, all of which were then cancelled.

13. COMMITMENTS

Commitments under operating leases

At 30 September 2002, the Group had total future aggregate minimum lease payments under non-cancellable operating lease as follows:

	30 September 2002 HK\$'000 Unaudited	31 March 2002 HK\$'000 Audited
Within one year	5,040	4,504
In the second to fifth year inclusive	1,318	855
	<u>6,358</u>	<u>5,359</u>

14. DISCONTINUED OPERATIONS

The Group had no discontinuing/discontinued operations during the Period.

In the last financial year ended 31 March 2002, as part of the strategic plan of the Group to focus on financial services and wealth management, the Company disposed of a certain subsidiary, the principal activities of which were manufacture and sale of portfolios, portable cases, luggage products, purses and accessories. The disposal was completed on 14 September 2001. An analysis of the total assets and liabilities of the subsidiary disposed is as follows:

	<i>HK\$'000</i> (Audited)
Total assets	12,752
Total liabilities	<u>(18,841)</u>
Net liabilities	<u>(6,089)</u>

15. SUBSEQUENT EVENTS

- (a) Subsequent to 30 September 2002, special resolutions were passed by shareholders of the Company in general meeting to effect a capital reorganisation by way of a capital reduction, consolidation of shares and a share premium reduction.
- (b) In November 2002, a subsidiary company extended its banking facility by HK\$25 million for the provision of its money lending business. The banking facility is secured by the pledge of third party collateral securities and by a limited corporate guarantee by the Company to the extent of HK\$25 million plus interest in arrears. The banking facility is due to expire on 31 May 2003.

16. COMPARATIVE FIGURES

Certain of the comparative figures in the condensed consolidated profit and loss account have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend.

FINANCIAL REVIEW

The Group's turnover for the financial period ended 30 September 2002 was HK\$23.6 million, representing a decrease of approximately 3.8 per cent as compared to the turnover for the corresponding period ended 30 September 2001 (2001: approximately HK\$24.6 million). The loss attributable to shareholders was about HK\$53.3 million.

REVIEW OF OPERATIONS

The Group's operations have continued to be affected by the Hong Kong economic recession and financial markets downturn which directly affects the Group's business.

The loss of HK\$53.3 million for the Period is greater than expected and is not a reflection of the hard work and development that has occurred over the past 6 months period, but rather the result of an unrealised loss on other investments of approximately HK\$33.9 million (2001: HK\$7.6 million) from a write down of other investments to market value at 30 September 2002 in accordance to accounting guidelines.

With the slowdown in the financial markets, the capital markets operations, acquired in September 2001 and reorganised under Quam Capital (Holdings) Limited, incurred an attributable loss of approximately 14 per cent of the Group's net loss for the Period. During the Period, considerable efficiencies have been achieved in streamlining the operations of "offline" and "online" wealth management services.

Owing to the higher staff costs and the expansion of the corporate finance division, the Group incurred a temporary mismatch of costs to the corresponding expected revenues generating from the corporate finance and advisory business. The securities and futures brokerage operations are constantly monitored and costs kept to a minimum. The respective margin lending portfolio in the securities business is constantly monitored and maintained at an acceptable level.

The website management and related business under Quamnet contributed to a loss of approximately 28.7 per cent of the Group's net loss for the Period. Revenues remained stable, albeit without much growth.

In late August, the Group acquired the business of e-Credit.com.hk Limited, a credit referencing business and has successfully integrated the business under Quam Data Services Limited. The operations and revenue growth are very encouraging so far and are contributing positive cash flow and revenue to the Group.

During the Period, the Company underwent a capital raising exercise by way of a rights issue, thus raising in total approximately HK\$29 million before expenses. The rights issue was successfully subscribed and completed in mid August. The proceeds have been utilized for working capital and acquisitions related to the Group's businesses.

The Company was able to call prior to maturity on 6 September 2002 for a partial conversion of the convertible note amounting to about HK\$9.5 million, issued to Asia Pacific Creation Limited. The conversion enabled the Company to preserve much of its cash funds. The balance was repaid on maturity to extinguish this debt.

PROSPECTS

The Group believes that the set up of a new sales and marketing team in China, led by Mr. Charles Ge, and the commencement of Mr. Richard Winter in September to head the corporate finance division will solidify and strengthen the scope of services offered.

Despite the slowdown in the securities and futures broking operations, the Group is optimistic as to the potential that lies in the imminent opening of the China market to Hong Kong securities and capital markets operations. The Group has and is continually developing relations with China parties with a shared interest in forging new business in the imminent future.

The website management services under Quamnet operations are continually monitored, and especially from a cost perspective. Cashflow from the website management services have increased, but not yet to the point of achieving break-even. We are optimistic that the acquisition of the e-Credit business will contribute positive cash flow to support this extended line of business and accelerate Quamnet's path to profitability.

Hong Kong is still in an economic adjustment process and we expect, the second half of the financial year, will continue to be difficult.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank balances and short term bank deposits together with marketable securities as at 30 September 2002 amounted to approximately HK\$54.1 million.

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in Hong Kong. However, the Company underwent a capital raising exercise through a rights issue to raise approximately HK\$29 million before expenses, and was completed in mid August.

As at 30 September 2002, the Group had available aggregate banking facilities of approximately HK\$118.5 million which were secured by legal charges on certain securities and bonds owned by the Group and its margin and money lending clients. As at 30 September 2002, only HK\$16.2 million was utilized on these banking facilities.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2002, the Directors' interests in the securities of the Company or its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) recorded in the register required to be kept under Section 29 to the SDI Ordinance were as follows:

Interests in issued shares in the Company

Name of Directors	Nature of interests		Total number of shares (note 3)	% of issued shares
	Personal (note 3)	Corporate (notes 3 & 4)		
Mr. Bernard Pouliot (notes 1 & 5)	4,367,610	1,453,745,868	1,458,113,478	27.40%
Mr. Kenneth Lam Kin Hing (notes 2 & 5)	24,327,732	653,740,539	678,068,271	12.74%
Mr. Richard David Winter	3,000,000	–	3,000,000	0.05%
Mr. William Chow Wai Lap	1,000,000	–	1,000,000	0.01%

Notes:

1. The corporate interests are held by Newer Challenge Holdings Limited and Porto Global Limited, the controlling shareholders of the Company, which are beneficially owned by Mr. Bernard Pouliot, Executive Director and Chairman of the Company.
2. The corporate interests are held by Olympia Asian Limited, a company beneficially owned by Mr. Kenneth Lam Kin Hing, Executive Director and Deputy Chairman of the Company.
3. The shareholding depicted in the above is prior to a consolidation of shares of 50 shares to 1 new share which was effected on 4 October 2002.
4. Please refer to note 4 of the "Substantial Shareholders" section for details.
5. Pursuant to note 4 above, the respective shareholding in the Company held by Mr. Bernard Pouliot and Mr. Kenneth Lam Kin Hing as at 8 October 2002 are 20.64% and 19.51%, respectively.

Save as disclosed above, as at 30 September 2002, none of the Directors or their respective associates had any interests in the securities of the Company or any of its associated corporations.

Interests in share options in the Company

On 30 September 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") and termination of the employee share option scheme adopted on 4 September 1997 (the "Old Scheme").

Upon the termination of the Old Scheme, no further share options will be offered under the Old Scheme. However, the terms and conditions of the Old Scheme will remain in full force and effect in respect of the existing share options.

Pursuant to the New Scheme adopted by the Company whereby the Directors, at their discretion, were authorized to invite employees, directors and other participants of the Group, to take up share options to subscribe for shares of the Company. The share options are exercisable for a period of up to ten years.

As at 30 September 2002, the following share options granted under both Old Scheme and New Scheme to subscribe for shares in the Company were outstanding:

	Number of share options of the Company held (note 1)	Option exercise price (HK\$) (note 1)	Option period
Directors			
Mr. Bernard Pouliot	177,179,306	0.01340	29 July 2002 – 28 July 2012
Mr. Kenneth Lam Kin Hing	177,179,306	0.01340	29 July 2002 – 28 July 2012
Mr. Richard David Winter	177,179,306	0.01340	29 July 2002 – 28 July 2012
Mr. William Chow Wai Lap	16,000,000	0.06875	1 August 2000 – 3 September 2007
Employees	62,336,000	0.02375	5 September 2001 – 8 September 2011
Other option holder	49,136,842	0.11875	30 January 2001 – 29 January 2004

Save as disclosed above, at no time during the six months ended 30 September 2002 was the Company and any of its subsidiaries were a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Note 1: The share options depicted in the above is prior to a consolidation of shares of 50 shares to 1 new share which was effected on 4 October 2002. An adjustment of the above mentioned shall be made to reflect the change in capital structure.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the following interest in 10% or more in the issued share capital of the Company was notified to the Company and recorded in the register required to be kept under Section 16(1) of the SDI Ordinance:

Name of Shareholders	Number of shares beneficially held <i>(note 3)</i>	% of total issued shares
Newer Challenge Holdings Limited <i>(note 1)</i>	800,005,329	15.03%
Porto Global Limited <i>(notes 1 & 4)</i>	653,740,539	12.28%
Olympia Asian Limited <i>(notes 2 & 4)</i>	653,740,539	12.28%

Notes:

1. Newer Challenge Holdings Limited and Porto Global Limited are companies beneficially owned by Mr. Bernard Pouliot, Executive Director and Chairman of the Company.
2. Olympia Asian Limited, a company beneficially owned by Mr. Kenneth Lam Kin Hing, Executive Director and Deputy Chairman of the Company.
3. The shareholding depicted in the above is prior to a consolidation of shares of 50 shares to 1 new share which was effected on 4 October 2002.
4. On 8 October 2002, Porto Global Limited disposed of the equivalent of 360,000,000 shares to Olympia Asian Limited and as a result Porto Global Limited reduced its shareholding in the Company to 5.52% and Olympia Asian Limited increased its shareholding in the Company to 19.05%.

EMPLOYMENT AND REMUNERATION POLICIES

As at 30 September 2002, the Group had an available workforce of 144 staff of which approximately 20 were based in the People's Republic of China.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed and bonuses paid on an annual basis based on performance appraisals and other relevant factors. Staff benefit plans maintained by the Group include mandatory provident fund scheme and medical insurance. Share options are granted to certain staff and directors of the Group.

BOARD OF DIRECTORS

Executive Directors

Mr. Bernard Pouliot, *Chairman*

Mr. Kenneth Lam Kin Hing, *Deputy Chairman*

Mr. Richard David Winter, *Deputy Chairman*

Mr. Yip Tai Him

(retired on 30 September 2002)

Non-executive Director

Mr. William Chow Wai Lap

Independent Non-executive Directors

Mr. Steven Kwan Ying Wai

Mr. Jeremy King

(appointed on 8 October 2002)

Mr. Li Chi Chung

(retired on 30 September 2002)

Mr. William Chao Hang Man

(resigned on 8 October 2002)

PURCHASE, REDEMPTION OR SALE OF SHARES

During the six months ended 30 September 2002, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's securities.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim condensed accounts.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2002, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that independent non-executive directors of the Company were not appointed for specific terms but are subject to retirement by rotation in accordance with the bye-laws of the Company.

By order of the Board
Bernard Pouliot
Chairman

Hong Kong, 16 December 2002