



# 2003

▶▶ Interim Report ☆



**Quam Limited**

(Incorporated in Bermuda with limited liability)

**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 2003 (the "Period") together with the comparative figures for the corresponding period as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

*Six months ended 30 September 2003*

	Note	2003 HK\$'000 Unaudited	2002 HK\$'000 Unaudited and restated
<b>Turnover</b>	2	<b>38,212</b>	(10,247)
Other revenue and gains	2	536	159
Cost of services		(7,003)	(6,492)
Interest expenses for financial service operations		(1,031)	(354)
Staff costs		(16,410)	(18,960)
Depreciation and amortisation expenses		(4,153)	(4,204)
Other operating expenses		(7,006)	(13,024)
		<b>(35,067)</b>	(42,875)
<b>Operating profit/(loss)</b>	3	<b>3,145</b>	(53,122)
Finance costs		-	(186)
<b>Profit/(Loss) before taxation</b>		<b>3,145</b>	(53,308)
Taxation	4	-	-
<b>Profit/(Loss) before minority interests</b>		<b>3,145</b>	(53,308)
Minority interests		-	(5)
<b>Profit/(Loss) attributable to shareholders</b>		<b>3,145</b>	(53,313)
		<i>HK cents</i>	<i>HK cents</i>
<b>Earnings/(Loss) per share – basic</b>	5	<b>2.96</b>	(75.12)

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30 September 2003

	Note	30 September 2003 HK\$'000 Unaudited	31 March 2003 HK\$'000 Audited
<b>Non-current assets</b>			
Fixed assets	7	7,852	8,874
Intangible assets	8	11,879	12,826
Goodwill	9	15,682	16,669
Long term investments	10	11,518	16,054
Other assets		2,335	3,935
		<u>49,266</u>	<u>58,358</u>
<b>Current assets</b>			
Trade receivables	11	78,434	79,441
Prepayments, deposits and other receivables		11,568	6,755
Short term investments		23,973	23,166
Trust time deposits held on behalf of customers		50,838	36,140
Trust bank balances held on behalf of customers		52,153	9,326
Cash and cash equivalents		23,127	17,001
		<u>240,093</u>	<u>171,829</u>
<b>Current liabilities</b>			
Trade payables	12	114,985	58,652
Tax payable		328	328
Other payables and accruals		22,178	24,484
Interest-bearing bank loans, secured	13	31,927	29,927
		<u>169,418</u>	<u>113,391</u>
<b>Net current assets</b>		<u>70,675</u>	<u>58,438</u>
<b>Total assets less current liabilities</b>		<u>119,941</u>	<u>116,796</u>
<b>Non-current liability</b>			
Deferred tax		36	36
		<u>36</u>	<u>36</u>
<b>Net assets</b>		<u>119,905</u>	<u>116,760</u>
<b>Capital and Reserves</b>			
Share capital	14	1,064	1,064
Reserves		118,841	115,696
<b>Shareholders' funds</b>		<u>119,905</u>	<u>116,760</u>

**CONDENSED CONSOLIDATED CASHFLOW STATEMENT**

*Six months ended 30 September 2003*

	<b>2003</b> <i>HK\$'000</i> <b>Unaudited</b>	2002 <i>HK\$'000</i> Unaudited and restated
Net cash inflow/(outflow) from operating activities	<u>1,679</u>	<u>11,022</u>
Net cash inflow/(outflow) from investing activities	<u>3,478</u>	<u>(3,432)</u>
Net cash inflow/(outflow) from financing	<u>969</u>	<u>26,847</u>
Increase/(decrease) in cash and cash equivalents	<b>6,126</b>	34,437
Cash and cash equivalents at 1 April	<u>17,001</u>	<u>(8,962)</u>
Cash and cash equivalents at 30 September	<u><b>23,127</b></u>	<u>25,475</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<b>11,139</b>	12,512
Time deposits with original maturity of less than three months	<u>11,988</u>	<u>12,963</u>
	<u><b>23,127</b></u>	<u>25,475</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***Six months ended 30 September 2003*

	Issued share capital	Share premium	Goodwill on acquisition	Contributed surplus	Accumulated losses	Capital redemption reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
At 1 April 2003	1,064	374,349	(47,398)	204,223	(416,410)	932	116,760
Profit for the Period	-	-	-	-	3,145	-	3,145
At 30 September 2003	<u>1,064</u>	<u>374,349</u>	<u>(47,398)</u>	<u>204,223</u>	<u>(413,265)</u>	<u>932</u>	<u>119,905</u>
At 1 April 2002	32,235	478,448	(197,398)	32,080	(176,735)	932	169,562
Rights issue	19,341	9,670	-	-	-	-	29,011
Share issue expenses	-	(1,807)	-	-	-	-	(1,807)
Redemption of convertible note payable	1,631	7,908	-	-	-	-	9,539
Loss for the period	-	-	-	-	(53,313)	-	(53,313)
At 30 September 2002	<u>53,207</u>	<u>494,219</u>	<u>(197,398)</u>	<u>32,080</u>	<u>(230,048)</u>	<u>932</u>	<u>152,992</u>

## NOTES TO UNAUDITED INTERIM RESULTS

### 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 of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

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 2003, except for the adoption of the following revised SSAP, which is effective for the first time in the preparation of the unaudited condensed consolidated financial statements for the Period.

In the current period, the Group has adopted SSAP 12 (revised) "Income taxes" issued by the HKSA, which is effective for the accounting period commencing on or after 1 January 2003. The SSAP 12 (revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax was provided using the income statement liability method on all significant differences to the extent it was probable that the liability would crystallize in the foreseeable future. A deferred tax asset was not recognised until its realization was assured beyond reasonable doubt. SSAP 12 (revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exception. Deferred tax assets are not recognised unless it is probable that future taxable profit will be available against which the temporary differences can be utilized. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (revised) has had no material effect on the results for the current or prior periods. Accordingly no prior period adjustment is required.

## 2. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents income from securities and futures broking, the provision of website management and related services, advertising and sales of content, the provision of fund management services and the provision of credit information services, dividend income, and realised and unrealised gains/(losses) from short term trading in investments.

	<b>Six months ended 30 September 2003 HK\$'000 Unaudited</b>	Six months ended 30 September 2002 HK\$'000 Unaudited and restated
Turnover		
Advertising and content fee income	1,258	1,285
Website management and related services fee income	5,335	4,384
Credit information service fee income	1,824	378
Commission income on securities and futures broking	9,342	6,593
Advisory and placement fee income	6,413	4,019
Interest income from margin financing and money lending operations	2,781	2,137
Dividend income	—	3,663
Fund management fee income	572	—
	<hr/>	<hr/>
	27,525	22,459
Net realised and unrealised gains/(losses) on short term investments	10,687	(32,706)
	<hr/>	<hr/>
Total turnover	<b>38,212</b>	<b>(10,247)</b>
Other revenue and gains		
Interest income from banks and others	135	159
Sundry income	401	—
	<hr/>	<hr/>
	536	159
	<hr/>	<hr/>
Total revenue	<b>38,748</b>	<b>(10,088)</b>
	<hr/>	<hr/>

**(a) Primary reporting format – Business segments**

*Six months ended 30 September 2003*

The Group is organised into three main business segments.

- Securities broking – securities and futures broking, provision of advisory, placement and asset management services, margin financing and money lending
- Website management – management of website including advertising, referral tools, credit information to online customers
- Investments – investment holding and trading

	Securities broking		Website management		Investments		Consolidated	
	2003 HK\$'000 Unaudited	2002 HK\$'000 Unaudited and restated	2003 HK\$'000 Unaudited	2002 HK\$'000 Unaudited and restated	2003 HK\$'000 Unaudited	2002 HK\$'000 Unaudited and restated	2003 HK\$'000 Unaudited	2002 HK\$'000 Unaudited and restated
Turnover	19,108	12,749	8,417	6,047	10,687	(29,043)	38,212	(10,247)
Segment results	5,830	(7,677)	(6,654)	(13,001)	5,327	(31,122)	4,503	(51,800)
Net corporate expenses							(1,358)	(1,322)
Operating profit/(loss)							3,145	(53,122)
Finance costs							-	(186)
Profit/(loss) before taxation							3,145	(53,308)
Taxation							-	-
Profit/(Loss) before minority interests							3,145	(53,308)
Minority interests							-	(5)
Profit/(Loss) for the period							3,145	(53,313)



**(b) Secondary reporting format - Geographical segments**

Six months ended 30 September 2003

The Group's operations and assets are predominantly in Hong Kong and accordingly a geographical analysis has not been presented. The Group has minor activities in Shenzhen, PRC, which accounts for less than 1% of the Group's turnover.

**3. OPERATING PROFIT/(LOSS)**

Operating profit/(loss) is stated after charging/(crediting) the following:

	<b>Six months ended 30 September 2003 HK\$'000 Unaudited</b>	Six months ended 30 September 2002 HK\$'000 Unaudited
Amortisation of goodwill	987	941
Amortisation of intangible assets	947	461
Depreciation		
Owned assets	2,219	2,612
Leased assets	-	190
Retirement benefit costs	367	622
Gain on disposal of fixed assets	(4)	(8)
	<u>          </u>	<u>          </u>

**4. TAXATION**

No Hong Kong profits tax nor taxes assessable from elsewhere has been provided as the Group either had no assessable profits or have available tax losses brought forward from prior years to offset against assessable profits arising in Hong Kong for the Period (2002: Nil).

No deferred tax asset has been recognised due to the uncertainty of future profit streams.

**5. EARNINGS/(LOSS) PER SHARE****(a) Basic earnings/(loss) per share**

The calculation for basic earnings/(loss) per share is based on the profits for the Period attributable to shareholders of HK\$3,145,000 (2002: HK\$53,313,000 loss) and on the weighted average number of 106,413,998 (2002: 70,966,705 as restated to reflect the consolidation of shares) ordinary shares in issue during the Period.

**(b) Diluted earnings/(loss) per share**

Diluted earnings per share has not been presented for the six months ended 30 September 2003 and 2002 as the share options outstanding during the periods had no dilutive effect on the basic earnings for the periods.

**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 with the requirements stipulated in Chapter 14 of the Listing Rules to disclose details of such connected transactions by press notice and/or circular and/or to obtain prior independent shareholders' 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\$1.41 million (2002: HK\$2.43 million) was received from a related company for advisory services provided to the related company. Certain directors of the Company, namely Mr. Bernard Pouliot and Mr. Kenneth Lam Kin Hing are directors of the related company.
- (c) The Group launched a private equity fund (the "Fund") in July 2002. A subsidiary company and certain directors of the Group hold an interest in the Fund. 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. A director of the Company, namely Mr. Kenneth Lam Kin Hing is a director of the Fund.
- (d) During the Period, a subsidiary of the Company granted a convertible loan to a Thailand registered asset management company, to the amount equivalent to HK\$0.47 million. The convertible loan is for a period of 5 years, bears interest at 5% per annum and is convertible into ordinary shares representing approximately 10% interest in that company. An independent non-executive director of the Company, namely Mr. Jeremy King is a director of this asset management company.

## 7. FIXED ASSETS

	<b>Leasehold improvements</b>	<b>Furniture, fixtures and equipment</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	Unaudited	Unaudited	Unaudited
Net book value at 1 April 2003	997	7,877	8,874
Additions	829	371	1,200
Disposals	–	(3)	(3)
Depreciation	(418)	(1,801)	(2,219)
<b>Net book value at 30 September 2003</b>	<b><u>1,408</u></b>	<b><u>6,444</u></b>	<b><u>7,852</u></b>

## 8. INTANGIBLE ASSETS

	<b>Trading rights</b>	<b>Database</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	Unaudited	Unaudited	Unaudited
Net book value at 1 April 2003	11,657	1,169	12,826
Amortisation	(885)	(62)	(947)
<b>Net book value at 30 September 2003</b>	<b><u>10,772</u></b>	<b><u>1,107</u></b>	<b><u>11,879</u></b>

## 9. GOODWILL

The amount of goodwill capitalised as an asset, arising from the acquisition of subsidiaries, is as follows:

	<i>HK\$'000</i>
	Unaudited
Net book value at 1 April 2003	16,669
Amortisation	(987)
<b>Net book value at 30 September 2003</b>	<b><u>15,682</u></b>

10. LONG TERM INVESTMENTS

	<b>30 September 2003 HK\$'000 Unaudited</b>	31 March 2003 HK\$'000 Audited
Club Debenture	653	653
Convertible Loan	472	–
Unlisted equity investments, at cost	18,956	18,964
Unlisted held-to maturity securities, at amortised cost	–	5,000
	<hr/>	<hr/>
	20,081	24,617
Provision for impairment	(8,563)	(8,563)
	<hr/>	<hr/>
	<b>11,518</b>	<b>16,054</b>
	<hr/> <hr/>	<hr/> <hr/>

11. TRADE RECEIVABLES

The Group's trade receivables as at 30 September 2003 mainly consisted of receivables for money lending business, and receivables of the securities and future broking businesses. The Group grants credit periods of 60 to 180 days to its customers for money lending business, while for the securities and futures broking businesses, the Group allows a credit period up to the settlement dates of their respective securities transactions except for margin client receivables which are repayable on demand. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise the credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on due date and net of provision, is as follows:

	<b>30 September 2003 HK\$'000 Unaudited</b>	31 March 2003 HK\$'000 Audited
Repayable on demand	37,014	27,346
Within 180 days	41,382	52,089
Over 180 days	38	6
	<hr/>	<hr/>
	<b>78,434</b>	<b>79,441</b>
	<hr/> <hr/>	<hr/> <hr/>

Included in the Group's trade receivables were amounts due from directors of HK\$1,157,000 (31 March 2003: HK\$2,234,000) in respect of transactions in securities as at 30 September 2003.

**12. TRADE PAYABLES**

Included in the Group's trade payables as at 30 September 2003 were margin clients payables of HK\$39,850,000 (31 March 2003: HK\$15,092,000) for which funds had been or would be segregated to the Group's trust bank/time deposits accounts for settlements in accordance with the securities and futures broking industry practice, and were repayable on demand.

An aged analysis of the trade payables as at balance sheet date, based on due date, is as follows:

	<b>30 September 2003 HK\$'000 Unaudited</b>	31 March 2003 HK\$'000 Audited
Repayable on demand	<b>39,850</b>	15,092
Within 180 days	<b>74,853</b>	43,299
Over 180 days	<b>282</b>	261
	<b><u>114,985</u></b>	<u>58,652</u>

Included in the above trade payables was an amount due to a director of HK\$3,969,000 (31 March 2003: HK\$617,000) in respect of transactions in securities as at 30 September 2003.

**13. INTEREST-BEARING BANK LOANS, SECURED**

As at 30 September 2003, the Group's bank loans of HK\$31,927,000 (31 March 2003: HK\$29,927,000) were secured by marketable securities of HK\$233,000,000 (31 March 2003: HK\$557,500,000) pledged to the Group by margin clients and money lending clients.

14. SHARE CAPITAL

	30 September 2003 HK\$'000 Unaudited	31 March 2003 HK\$'000 Audited
Authorised: 200,000,000 ordinary shares of HK\$0.01 each	<u>2,000</u>	<u>2,000</u>
	<b>No. of shares</b>	<b>Par value HK\$</b>
		<b>Amount HK\$'000</b>
Issued and fully paid:		
At 1 April 2003 and at 30 September 2003	<u>106,413,998</u>	0.01
		<u>1,064</u>
At 1 April 2002	3,223,527,717	0.01
Issue of shares (note a)	1,934,116,629	0.01
Issue of shares (note b)	163,055,555	0.01
Issue of shares (note c)	<u>(5,214,285,903)</u>	0.01
		<u>(52,143)</u>
At 31 March 2003	<u>106,413,998</u>	0.01
		<u>1,064</u>

Notes:

- (a) A rights issue of three rights share for every five existing shares held by members on the register of members on 29 July 2002 was made, at an issue price of HK\$0.015 per rights share, resulting in the issue of 1,934,116,629 ordinary shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$29,011,000. The rights issue was completed on 21 August 2002.
- (b) On 12 August 2002, the Company called for the partial conversion of the convertible note issued by the Company into 163,055,555 ordinary shares at a conversion price of HK\$0.0585 for an amount of HK\$9,538,750.
- (c) Pursuant to a shareholders' special resolution passed on 3 October 2002, the par value for each ordinary shares were reduced from HK\$0.01 to HK\$0.0002 each. Immediately after the capital reduction, 50 ordinary shares with par value of HK\$0.0002 each were consolidated into one ordinary share with par value of HK\$0.01 each. Correspondingly, the authorised share capital was also reduced from 10,000,000,000 ordinary shares to 200,000,000 ordinary shares.

The reduced amount of issued share capital of HK\$52,143,000 was transferred to the contributed surplus account.

**15. COMMITMENTS****Commitments under operating leases**

At 30 September 2003, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>30 September 2003 HK\$'000 Unaudited</b>	31 March 2003 HK\$'000 Audited
Payable within one year	4,364	4,888
Payable in the second to fifth year inclusive	3,477	4,464
	<hr/>	<hr/>
	<b>7,841</b>	<b>9,352</b>
	<hr/> <hr/>	<hr/> <hr/>

**16. CONTINGENT LIABILITY**

On 23 April 2003, a lawsuit was brought by an independent third party alleging that the content of an article published on the Group's website on 26 March 2003 was defamatory. The third party is claiming for unspecified damages from the author of that article and a subsidiary of the Group, Quam (H.K.) Limited. In June 2003, the author of the article and the subsidiary separately filed their defence against the claim. In the opinion of the Group's legal counsel, it is unable to form any conclusion on the outcome of the claim and the ultimate liability, if any, because legal proceedings are at their early stage.

As at the date of approval of this interim report, no further developments have been made since the filing of the defence in June 2003. In the opinion of the directors, based on the information available at the date of approval of this interim report, the financial impact of the above lawsuit, if any, could not be reliably estimated.

**17. COMPARATIVE FIGURES**

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

The net realised and unrealised gains/losses on short term investments for the six months ended 30 September 2002 has been reclassified from "Other revenue and gains" to "Turnover", being consistent with the classification in the annual audited financial statements ended 31 March 2003.

Furthermore, "Finance costs" of HK\$354,000 has been reclassified as operating expenses as "Interest expenses for financial service operations" for the six months ended 30 September 2002, being consistent with the annual audited financial statements ended 31 March 2003.

The condensed consolidated cashflow statement for the six months ended 30 September 2002 has been restated to conform with the current period presentation which is in compliance to the requirements under SSAP15 (revised) "Cash flow statements" issued by HKSA.

## INTERIM DIVIDEND

The Directors do not recommend any interim dividend.

## FINANCIAL REVIEW

The Group's turnover before net realised and unrealised gains/losses on short term investments for the financial period ended 30 September 2003 was HK\$27.5 million representing an increase of approximately 23% as compared to the turnover for the corresponding period ended 30 September 2002 (2002: approximately HK\$22.5 million as restated). The Group's net realised and unrealised gains on short-term investments for the Period was HK\$10.7 million (2002: HK\$32.7 million loss). The profit attributable to shareholders for the Period was approximately HK\$3.1 million (2002: HK\$53.3 million loss).

## REVIEW OF OPERATIONS

The Group's operations and investments for the Period have benefited from the improved investment sentiment and increased investment activities in Hong Kong and around Asia in the later months of the Period.

The profit of HK\$3.1 million is an early indication of the expected turnaround for the Group, having survived several unfavorable periods of the economic adjustment and recession and the recent SARS epidemic. It should be noted that the Group's performance is closely correlated to the state of the financial markets and investment climate in Hong Kong. The reorganization and cost restructuring over the past periods have placed the Group in a good position to capitalize on the upswing in the economy of Hong Kong.

The Quam Capital (Holdings) Limited group operations, consisting the securities, futures, advisory, asset management and lending businesses, have continually been improving since the SARS crisis came to an end in late June. Brokerage income in both the securities and futures operations have increased by up to 50% during the Period. The securities margin-lending portfolio remained steady over the Period, reflecting the cautious investor sentiment that prevails. Quam Capital Limited secured several mandates and is continuing to develop new business relations, especially from many PRC businesses, looking for corporate finance advisory services. Quam Asset Management Limited and Quam (IA) Limited continued to achieve good performance with funds under management or advisory, totaling close to HK\$150 million as of 30 September 2003. This activity contributed to the Group's profitability through both management and performance fees.



The Quam.net Limited group operations, consisting of website management, advertising and credit information services, have also improved, albeit, they are still slightly loss making. Subscription income is increasing due to the improved investment climate for the QSM range of services, and the promotion of the Traders Corner services. The QFA services and Tony's Daily continue to be premium service products with a stable subscription base. The effects of cost reductions in areas of communication, connectivity, rental and the termination of free quotes services and the continual revision of staffing and operations functions, are having a positive benefit to the cashflow and results. The website revenue has improved with steady growth in both subscribers and net revenue, with an increase in total paying subscriber numbers of over 20% for the Period. In order to widen the reach of our financial platform, we launched "Beat Vincent Lam" contest, which brings an interactive component to this investment contest. In addition, we set up a joint site with a leading international insurance company to promote investment linked insurance. As always, Quam cares for its investors.

## PROSPECTS

We have always mentioned in past announcements that the future of the Quam group, and indeed Hong Kong, lies in the imminent opening of the China market. With current developments in the political and legislative arena, together with the signing of CEPA, we are now seeing material development in the financial infrastructure that will lead to the realization of our growth opportunities.

As mentioned earlier, the cost restructuring during the past years has and will place the Quam group in a strong position to reap the upswing in capital market activity. We are hopeful of a recovery in the securities markets in Hong Kong and around Asia, and signs so far have indicated a steady increase in confidence levels. The securities brokerage business is looking to further extend its Internet trading platform to new investors by its support in the "Beat Vincent Lam" investment contest launched in August 2003. The futures dealing business has also launched its Internet futures trading platform in July 2003, and shall be looking to extend this service to a new client base. Furthermore, on the back of this recovery, we look to grow our asset management business with the launch of several more funds. The corporate finance advisory business is extending its reach with the growing appetite for capital as the recovery onset begins to set in. It is expected that several of our larger sized mandate transactions will complete as the improving investment sentiment continues.

The improved investment sentiment also benefited Quamnet ([www.quamnet.com](http://www.quamnet.com)) in the later months of the Period, and we expect the increase to our subscription rates for the online services to continue. Furthermore, we have and are developing further reach for our Quamnet products with different delivery and settlement modes, including through the mobile telephone networks. As always, we are carefully monitoring our costs.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank and short term bank deposit balances as at 30 September 2003 was approximately HK\$23.1 million. Furthermore, the Group has marketable securities of approximately HK\$24.0 million as at 30 September 2003. The Group's gearing ratio is 26.6% as at 30 September 2003 as compared with 25.6% as at 31 March 2003.

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in Hong Kong. As at 30 September 2003, the Group had available aggregate banking facilities of approximately HK\$75 million which are secured by legal charges on certain securities owned by the Group or its margin and money lending clients. As at 30 September 2003, approximately HK\$32 million was utilized on these banking facilities which were secured by marketable securities of HK\$233 million pledged to the Group by margin clients and money lending clients.

**DIRECTORS' INTERESTS IN SECURITIES**

At 30 September 2003, the interests and short positions of the Directors and chief executive of the Company in shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register or required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Company were as follows:

Name of Directors	Number of ordinary shares held and nature of interests				Percentage of issued share capital
	Personal	Family	Corporate	Total	
Mr. Bernard Pouliot	87,352	1,500,000 <i>(note 1)</i>	22,421,184 <i>(note 2)</i>	24,008,536	22.56
Mr. Kenneth Lam Kin Hing	486,553	–	20,274,810 <i>(note 3)</i>	20,761,363	19.50
Mr. Richard David Winter	556,000	–	–	556,000	0.52

*Notes:*

1. The family interests of Mr. Bernard Pouliot are held by his wife, Ms. Chan Wai Yin, Elizabeth.
2. The corporate interests are held by Newer Challenge Holdings Limited and Porto Global Limited, the controlling shareholders of the Company, which are wholly beneficially owned by Mr. Bernard Pouliot, Executive Director and Chairman of the Company.
3. 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.

Save as disclosed above, as at 30 September 2003, none of the Directors of the Company or their respective associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO).

**DIRECTORS' RIGHT TO ACQUIRE SHARES**

The Company has two share option schemes, namely employee share option scheme adopted on 4 September 1997 and terminated on 30 September 2002 (the "Old Scheme") and new share option scheme adopted on 30 September 2002 (the "New Scheme").

The following table discloses details of share options outstanding of the Company under the New Scheme and the Old Scheme and movements during the Period:

Name of category of participant	Date granted	Exercise period	Exercise price HK\$	Balance at 1 April 2003	Number of Share Options		Balance at 30 September 2003
					Lapsed during the Period	Exercise during the Period	
<b>Old Scheme</b>							
<i>Directors</i>							
Mr. William Chow Wai Lap	1/8/2000	1/8/2000 to 3/9/2007	3.3475	320,000	320,000	-	-
<i>Employees</i>							
In aggregate	5/3/2001	5/9/2001 to 8/9/2011	1.1875	1,064,640	62,720	-	1,001,920
<i>Others</i>							
In aggregate	12/1/2001	30/1/2001 to 29/1/2004	5.9375	982,736	-	-	982,736
				2,367,376	382,720	-	1,984,656
<b>New Scheme</b>							
<i>Directors</i>							
Mr. Bernard Pouliot	29/7/2002	29/7/2002 to 28/7/2012	0.6700	3,543,586	-	-	3,543,586
Mr. Kenneth Lam Kin Hing	29/7/2002	29/7/2002 to 28/7/2012	0.6700	3,543,586	-	-	3,543,586
Mr. Richard David Winter	29/7/2002	29/7/2002 to 28/7/2012	0.6700	3,543,586	-	-	3,543,586
				10,630,758	-	-	10,630,758

Save as disclosed above, at no time during the six months ended 30 September 2003 was the Company and any of its subsidiaries a party to any arrangements to enable the Directors or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, so far as known to the Directors of the Company, the persons (other than the Directors and chief executives of the Company) who had interests and short positions in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Shareholders	Number of Shares beneficially held	Percentage Holding
Olympia Asian Limited ( <i>note 1</i> )	20,274,810	19.05
Newer Challenge Holdings Limited ( <i>note 2</i> )	16,000,106	15.03
Porto Global Limited ( <i>note 2</i> )	6,421,078	6.03

*Notes:*

- Olympia Asian Limited is a company beneficially owned by Mr. Kenneth Lam Kin Hing, Executive Director and Deputy Chairman of the Company.
- Newer Challenge Holdings Limited and Porto Global Limited are companies beneficially owned by Mr. Bernard Pouliot, Executive Director and Chairman of the Company.

Save as disclosed above, as at 30 September 2003, the Directors of the Company were not aware of any other persons (other than the Directors and chief executives of the Company) who had any interests or short positions in the shares, underlying shares and debentures in the Company as recorded in the register required to be kept under Section 336 of the SFO.

## EMPLOYMENT AND REMUNERATION POLICIES

As at 30 September 2003, the Group had a total full time staff of 114 and part time staff of 6. This included 16 staff 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*

### Non-executive Director

Mr. William Chow Wai Lap (retired on 26 September 2003)

### Independent Non-executive Directors

Mr. Steven Kwan Ying Wai

Mr. Jeremy King

Mr. Gordon Kwong Che Keung (appointed on 26 September 2003)

## PURCHASE, REDEMPTION OR SALE OF SHARES

During the six months ended 30 September 2003, 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 accounts.

**CODE OF BEST PRACTICE**

None of the Directors of the Company 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 2003, in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules, 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, 21 November 2003