Finding Value in the Investment World

Quam Financial Services Group

Quam Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2005

Condensed Consolidated Income Statement

For the six months ended 30 September 2005

INTERIM REPORT

The board of directors (the "Board") of Quam Limited (the "Company") is pleased to present the unaudited interim report of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2005 together with the comparative figures for the corresponding period as follows:

	Notes	2005	2004
		HK$'000	HK$'000
		Unaudited	Unaudited and restated
Revenue	3	53,229	38,818
Cost of services provided		(12,173)	(12,980)
Interest expenses for financial service operations		(1,924)	(1,298)
Staff costs		(22,727)	(20,284)
Depreciation and amortisation expenses		(2,339)	(3,124)
Other operating expenses		(11,456)	(11,341)
		(50,619)	(49,027)
Profit/(Loss) from operations	4	2,610	(10,209)
Finance costs		–	–
Profit/(Loss) before taxation		2,610	(10,209)
Taxation	5	–	–
Profit/(Loss) attributable to equity holders of the Company		2,610	(10,209)
		HK cents	HK cents
Earnings/(Loss) per share	6		
– Basic		2.45	(9.59)
– Diluted		N/A	N/A

Condensed Consolidated Balance Sheet

As at 30 September 2005

	Notes	30 September 2005 HK$'000 Unaudited	31 March 2005 HK$'000 Audited
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	8	3,862	4,732
Goodwill	9	14,695	14,695
Other intangible assets	10	8,494	9,440
Available-for-sale financial assets	11	6,701	–
Long term investments	12	–	6,767
Other assets		3,875	3,880
		37,627	39,514
Current assets			
Trade receivables	13	151,780	159,177
Short term loan receivables		3,808	128
Prepayments, deposits and other receivables		11,515	4,731
Short term investments		15,501	24,824
Trust time deposits held on behalf of customers		124,195	51,869
Trust bank balances held on behalf of customers		29,910	89,675
Cash and cash equivalents		30,224	26,918
		366,933	357,322
Current liabilities			
Trade payables	14	209,636	178,954
Short term loan payables	15	20,000	–
Tax payable		328	328
Other payables and accruals		25,116	21,391
Interest-bearing bank loans, secured	16	33,801	85,500
		288,881	286,173
Net current assets		78,052	71,149
Total assets less current liabilities		115,679	110,663
Non-current liabilities			
Deferred tax		36	36
Net assets		115,643	110,627
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	17	1,100	1,064
Reserves		114,543	109,563
Total equity		115,643	110,627

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2005

	Share capital	Share premium account	Contributed surplus	Goodwill on acquisition	Capital redemption reserve	Retained profits/ (Accumulated losses)	Exchange reserves	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
At 1 April 2005	1,064	–	65,708	–	932	42,923	–	110,627
Shares issued upon exercise of share options*	36	2,339	–	–	–	–	–	2,375
Exchange reserves	–	–	–	–	–	–	31	31
Profit for the period	–	–	–	–	–	2,610	–	2,610
At 30 September 2005	1,100	2,339	65,708	–	932	45,533	31	115,643
At 1 April 2004	1,064	374,349	204,223	(47,398)	932	(408,680)	–	124,490
Transfer of goodwill on acquisition to accumulated losses on early adoption of HKFRS 3	–	–	–	47,398	–	(47,398)	–	–
As adjusted	1,064	374,349	204,223	–	932	(456,078)	–	124,490
Transfer of share premium to contributed surplus#	–	(374,349)	374,349	–	–	–	–	–
Transfer of contributed surplus to accumulated losses#	–	–	(512,864)	–	–	512,864	–	–
Loss for the period	–	–	–	–	–	(10,209)	–	(10,209)
At 30 September 2004	1,064	–	65,708	–	932	46,577	–	114,281

* Mr. Bernard Pouliot, executive director and chairman of the Company, has exercised his right to convert 3,543,586 share options at the exercise price of HK$0.67 each into 3,543,586 ordinary shares of HK$0.01 each of the Company on 26 September 2005.

\# A special resolution was passed by the shareholders of the Company at the Annual General Meeting held on 13 September 2004 resolving that with effect from the date of the resolution:

(a) the entire amount of HK$374,349,000 standing to the credit of the share premium account of the Company on 31 March 2004 be cancelled (the "Share Premium Reduction"); and

(b) the credit arising from the Share Premium Reduction be credited to the contributed surplus account where it may be applied in accordance with the Bye-laws of the Company and all applicable laws, including the elimination of the accumulated losses of the Company.

On the basis of the special resolution and pursuant to the Bye-laws of the Company, it was resolved by the directors of the Company that with effect from 13 September 2004, an amount of HK$512,864,000 standing in the contributed surplus account of the Company be used to eliminate the entire accumulated losses of the Company as at 31 March 2004.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2005

	2005 HK$'000 Unaudited	2004 HK$'000 Unaudited
Net cash inflow/(outflow) from operating activities	32,032	(12,222)
Net cash inflow/(outflow) from investing activities	598	(1,925)
Net cash (outflow)/inflow from financing activities	(29,324)	11,829
Increase/(Decrease) in cash and cash equivalents	3,306	(2,318)
Cash and cash equivalents at 1 April 2005	26,918	22,933
Cash and cash equivalents at 30 September 2005	30,224	20,615
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	24,204	15,024
Time deposits with original maturity of less than three months	6,020	5,591
	30,224	20,615

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation adopted in these unaudited interim financial statements are consistent with those adopted in the annual report for the year ended 31 March 2005, except that the Group has changed certain of its accounting policies following the adoption of new or revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include the relevant new HKASs and Interpretations) issued by the HKICPA, which are relevant to its operations, as set out below:

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Shares
HKAS 34	Interim Financial Reporting
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment

The adoption of HKASs 1, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 33, 34 and 37 has no material impact on the accounting policies of the Group and the methods of computation of these interim financial statements.

The effects and impact of adoption of the HKASs 32, 39 and 39 Amendment and HKFRS 2 are summarised as follows:

(a) HKASs 32, 39 and 39 Amendment – Financial Instruments

Prior to the adoption of HKAS 39, the Group has recorded its non-trading securities at cost less any provision for impairment losses and other securities at fair values with changes in value being recognised in the income statement as they arise.

On the adoption of HKAS 39, the Group classified its investments into the following categories: held-to-maturity, available-for-sale and fair value through profit and loss and measured its financial assets at either fair value or at amortised cost according to the classification. It also requires the recognition of derivative financial instruments at fair value and changes in the recognition and measurement of hedging activities.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include reference to the current market value of another instrument which is substantially the same.

When the fair value of unlisted equity securities cannot be reliably measured because the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale financial asset is impaired as a result of one or more events that occurred after the initial recognition of the assets (“loss events”), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the profit and loss account. The amount of the loss recognised in the profit and loss account shall be the difference between the acquisition cost and current fair value, less any impairment loss on that available-for-sale financial asset previously recognised in the profit and loss account.

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, any adjustment to the previous carrying amount is recognised in the opening balance of equity on 1 April 2005 and the comparative figures have not been restated.

HKAS 32 requires all disclosure and presentation rules regarding financial instruments to be applied retrospectively.

The adoption of HKASs 32, 39 and 39 Amendment does not have any significant impact on the Group’s unaudited interim financial statements.

(b) HKFRS 2 – Share-based Payment

Prior to the adoption of HKFRS 2 on 1 April 2005, equity-settled share-based payment transactions were treated as changes in the entity's equity only upon execution. HKFRS 2 requires all goods and services received in the course of share-based payment transactions to be measured at fair value and recognised in the financial statements with a corresponding credit to equity, unless the transaction is settled in cash. When applied to employee share-based compensation, this leads to the recognition of share options which have been granted and are expected to vest as an expense in profit or loss.

According to the transitional provisions of HKFRS 2, all equity-settled share-based payments granted after 7 November 2002 that had not vested at the first application of this standard are required to be recognised retrospectively in the Group's financial statements.

As the Group's share options were granted before 7 November 2002, in accordance with the transitional provisions the Group is not required to apply the accounting provisions of HKFRS 2.

2. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segments; and (ii) on a secondary segment reporting basis, by geographical segments.

Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risk and returns that are different to those of the other business segments.

Summary details of the business segments are as follows:

(i) the securities broking and placement segment engages in securities and futures dealing, provision of fund management services and placement services;

(ii) the margin financing and money lending segment engages in margin financing services, money lending, arrangement and guarantee business;

(iii) the advisory segment engages in the provision of corporate finance advisory and general advisory services;

(iv) the website management segment engages in the management of a website, advertising and referral tools to online customers and credit information services; and

(v) the investments segment engages in investment holding and securities trading.

Segment information for the six months ended 30 September 2005 and 2004 is as follows:

(a) Business segments

	Securities broking and placement		Margin financing and money lending		Advisory		Website management		Investments		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited and restated
Segment revenue	21,891	19,142	5,977	6,922	7,263	5,546	10,893	10,366	3,924	(4,665)	49,948	37,311
Segment results	2,786	285	1,072	1,585	678	32	(2,316)	(3,616)	2,314	(4,665)	4,534	(6,379)
Interest income and unallocated gains											1,110	55
Unallocated corporate expenses											(3,034)	(3,885)
Profit/(Loss) from operations											2,610	(10,209)
Finance costs											–	–
Profit/(Loss) before taxation											2,610	(10,209)
Taxation											–	–
Profit/(Loss) attributable to equity holders of the Company											2,610	(10,209)

(b) Geographical segments

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 and Shanghai, the People's Republic of China, which account for less than 1 per cent of the Group's turnover.

3. REVENUE AND TURNOVER

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

	Six months ended 30 September 2005 HK$'000 Unaudited	Six months ended 30 September 2004 HK$'000 Unaudited
Revenue		
Advertising and content fee income	1,266	1,336
Website management and related services fee income	7,433	7,098
Commission income on securities and futures broking	18,152	14,351
Advisory fee income	7,263	5,546
Placement and underwriting fee income	2,944	4,387
Income from margin financing and money lending operations	5,977	6,922
Fund management fee income	795	404
Credit information service fee income	2,194	1,932
	46,024	41,976
Net realised and unrealised gains/(losses) on short term investments and other investments	3,924	(4,665)
Turnover	49,948	37,311
Other income and gains		
Interest income from banks and others	1,110	55
Exchange gains, net	506	246
Sundry income	1,665	1,206
	3,281	1,507
	53,229	38,818

4. PROFIT/(LOSS) FROM OPERATIONS

Profit/(Loss) from operations is arrived after charging/(crediting):

	Six months ended 30 September 2005 HK$'000 Unaudited	Six months ended 30 September 2004 HK$'000 Unaudited
Amortisation of intangible assets	946	946
Depreciation	1,393	2,178
Loss on disposal of fixed assets	5	17
Net realised (gains) on disposal of short term investments included in turnover	(3,917)	(84)
Net unrealised losses on short term investments included in turnover	294	5,209
Net realised (gains) on other investments included in turnover	(301)	(460)
Impairment of trade receivables	521	495
Staff costs (including directors' remuneration):		
Salaries and other allowances	22,195	19,764
Retirement benefits costs	532	520

5. TAXATION

No Hong Kong profits tax nor taxes assessable from elsewhere has been provided as the Group either had no assessable profits or had available tax losses brought forward from prior years to offset against assessable profits for the period (2004: Nil).

No deferred tax asset has been recognised due to the uncertainty of future profit streams against which the asset can be utilised. The tax losses can be carried forward indefinitely.

As at 30 September 2005, the principal components of the Group's unrecognised deferred tax assets/(liabilities) calculated at 17.5% (31 March 2005: 17.5%) on the cumulative temporary differences are analysed as follows:

	30 September 2005 HK$'000 Unaudited	31 March 2005 HK$'000 Audited
Accelerated depreciation allowances	(214)	(95)
Tax losses	19,492	23,853
Other temporary differences	498	421
	19,776	24,179

6. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation for basic earnings/(loss) per share is based on the earnings for the period attributable to equity holders of the Company of approximately HK$2,610,000 (2004: HK$10,209,000 loss) and on the weighted average number of ordinary shares of 106,510,817 (2004: 106,413,998) in issue during the period.

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share has not been presented for the six months ended 30 September 2005 and 2004 as the share options outstanding during the periods had no dilutive effect on the basic earnings per share for the periods.

7. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these unaudited interim financial statements, the Group had the following material transactions with the directors, close family members of the directors and related companies, of which certain directors of the Company are also directors or have a direct/indirect equity interest, during the period:

	Notes	30 September 2005 HK$'000 Unaudited	30 September 2004 HK$'000 Unaudited
Related companies			
Consultancy fee income received	(i)	1,384	1,363
Commission income on broking	(ii)	49	7
Interest income on margin financing	(ii)	62	44
Interest expense on margin financing	(iii)	(249)	–
Directors			
Commission income on broking	(ii)	83	49
Interest income on margin financing	(ii)	114	200
Close family members of the directors			
Commission income on broking	(ii)	5	11
Interest income on margin financing	(ii)	5	22

Notes:

(i) Consultancy fees of THB1,000,000 (approximately HK$200,000) (2004: THB1,000,000) per month were received from a related company for the provision of advisory services and were charged based on mutually agreed terms.

(ii) The commission and interest charged to the above parties were in accordance with the terms similar to those offered to unrelated customers.

(iii) The interest paid to the related party was in accordance with the terms similar to those offered by unrelated brokers.

8. FIXED ASSETS

	Leasehold improvements	Furniture, fixtures and equipment	Total
	HK$'000	HK$'000	HK$'000
	Unaudited	Unaudited	Unaudited
Net book value at 1 April 2005	1,190	3,542	4,732
Translation Adjustment	–	16	16
Additions	2	513	515
Disposals	–	(8)	(8)
Depreciation	(309)	(1,084)	(1,393)
Net book value at 30 September 2005	883	2,979	3,862

9. GOODWILL

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

	HK$'000
	Unaudited
Carrying amount at 1 April 2005 and at 30 September 2005	14,695

10. OTHER INTANGIBLE ASSETS

	Trading rights	Database	Total
	HK$'000	HK$'000	HK$'000
	Unaudited	Unaudited	Unaudited
Net book value at 1 April 2005	8,519	921	9,440
Amortisation	(884)	(62)	(946)
Net book value at 30 September 2005	7,635	859	8,494

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 September 2005	31 March 2005
	HK$'000	HK$'000
	Unaudited	Audited
Club debenture, at cost less impairment losses	200	–
Unlisted equity securities, at cost less impairment losses	5,981	–
Hong Kong listed equity securities, at fair value	48	–
Others, at cost	472	–
	6,701	–

12. LONG TERM INVESTMENTS

	31 March 2005 HK$'000 Audited
Club debenture	653
Unlisted equity securities, at cost	19,791
Hong Kong listed equity securities, at fair value	114
Unlisted held-to-maturity debt securities, at amortised cost	472
	21,030
Less: Provision for impairment	(14,263)
	6,767

Pursuant to the adoption of HKAS 39 (Financial Instruments) with effect on 1 April 2005, "Long Term Investments" are shown as "Available-for-Sale Financial Assets" as described in note 11.

13. TRADE RECEIVABLES

The Group's trade receivables as at 30 September 2005 mainly consisted of receivables of the securities and futures broking business and advisory and placement business. For the advisory and placement business, billings are normally due on presentation. For the securities and futures broking business, the Group allows a credit period up to the settlement dates of their respective transactions except for margin client receivables which are repayable on demand and therefore, no aged analysis is disclosed. 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.

The aging analysis of the trade receivables of the Group as at 30 September 2005, based on due date and net of provision, is as follows:

	30 September 2005 HK$'000 Unaudited	31 March 2005 HK$'000 Audited
Repayable on demand		
– margin clients receivable	114,562	122,950
Within 180 days	36,108	33,971
180 days – 360 days	655	1,924
Over 360 days	455	332
	151,780	159,177

Included in the Group's margin clients receivable, there was an amount due from a director of HK$1,458,000 (31 March 2005: HK$5,451,000) in respect of transactions in securities as at 30 September 2005.

14. TRADE PAYABLES

Included in the Group's trade payables as at 30 September 2005 were client payables of approximately HK$187,775,000 (31 March 2005: HK$167,070,000) for which funds had been or would be segregated to the Group's trust bank/time deposits accounts and the clearing houses for settlements in accordance with the securities and futures broking industry practice.

The aging analysis of the trade payables of the Group as at 30 September 2005 is as follows:

	30 September 2005 HK$'000 Unaudited	31 March 2005 HK$'000 Audited
Repayable on demand:		
Securities transactions		
– margin clients payable	102,379	54,299
– cash clients payable	84,219	93,487
Futures and options contracts		
– clients payable	661	10,236
	187,259	158,022
Within 180 days	22,319	20,875
Over 180 days	58	57
	209,636	178,954

Accounts payable to cash clients attributable to dealing in securities transactions represents clients' undrawn monies/excess deposits placed with the Group. Accounts payable to clients attributable to dealing in futures and options contracts transactions includes margin deposits received from clients for their trading of futures and options contracts and clients' undrawn monies/excess deposits placed with the Group. All these accounts payable together with margin clients payable are repayable on demand and therefore, no aged analysis is disclosed.

As at 30 September 2005, there was no amount due to a director in respect of transactions in securities. As at 31 March 2005, an amount due to a director in respect of transactions in securities amounted to HK$29,000 which was included in the above clients payable as at 31 March 2005.

15. SHORT TERM LOAN PAYABLES

During the period, the Group obtained an unsecured loan from a third party to the amount of HK$20 million which is used for general working capital. Interest on this loan is charged at 8% per annum. The loan repayment is due on 31 January 2006.

16. INTEREST-BEARING BANK LOANS, SECURED

As at 30 September 2005, the Group's bank loans of HK$33.8 million (31 March 2005: HK$85.5 million) were secured by marketable securities of HK$186.4 million (31 March 2005: HK$283.2 million) pledged to the Group by margin clients and certain of the Group's listed equity securities included under short term investments and cash at bank amounting to HK$1.5 million (31 March 2005: HK$1.2 million) and HK$557,700 (31 March 2005: HK$76,000) respectively.

17. SHARE CAPITAL

	30 September 2005 HK$'000 Unaudited	31 March 2005 HK$'000 Audited
Authorised:		
10,000,000,000 ordinary shares of HK$0.01 each	100,000	100,000

Issued and fully paid ordinary shares of HK$0.01 each:

	No. of shares	Amount HK$'000
At 1 April 2005	106,413,998	1,064
Issue of shares*	3,543,586	36
At 30 September 2005	109,957,584	1,100

* Mr. Bernard Pouliot, executive director and chairman of the Company, has exercised his right to convert 3,543,586 share options at the exercise price of HK$0.67 each into 3,543,586 ordinary shares of HK$0.01 each of the Company on 26 September 2005. At the date before the options were exercised, the market value per share was HK$0.75.

18. OPERATING LEASE COMMITMENTS

The Group leases certain of its office premises and retail branches under operating lease arrangements. Leases for these premises are negotiated for terms ranging from one to three years.

At 30 September 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2005 HK$'000 Unaudited	31 March 2005 HK$'000 Audited
Payable within one year	5,020	5,853
Payable in the second to fifth years	2,557	5,083
	7,577	10,936

19. CONTINGENT LIABILITIES

Litigation

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 unspecified damages from the author of the 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 and up to 30 September 2005, a period of over 27 months has lapsed and there has been no further action taken either by the plaintiff or the subsidiary. In the opinion of the directors, based on the information available at the date of these unaudited interim financial statements, the financial impact of the above lawsuit, if any, cannot be reliably estimated.

20. COMPARATIVE FIGURES

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

In the "Condensed Consolidated Income Statement", the reclassifications that have been made to the comparative figures for the six months ended 30 September 2004, to be consistent with the classifications in the annual audited financial statements for the year ended 31 March 2005, is the sales commission paid of HK$1,724,000 being reclassified from "Staff costs" to "Cost of services provided".

With the early adoption of HKASs 36 and 38, and HKFRS 3 in the annual audited financial statements for the year ended 31 March 2005, amortisation of goodwill of approximately HK$987,000 previously reported for the six months ended 30 September 2004 is reversed to reflect the early adoption of these standards with effect from 1 April 2004, resulting in decrease in the loss attributable to equity holders of the Company for the interim period to 30 September 2004 by HK$987,000.

INTERIM DIVIDEND

The Board does not recommend any interim dividend.

FINANCIAL REVIEW

The Group reports an interim profit of HK$2.6 million (2004 as restated: HK$10.2 million loss). The Group's turnover before net realised and unrealised short term investments for the period was HK$46 million (2004: HK$42 million) representing an increase of 9.5 per cent.

REVIEW OF OPERATIONS

The Group's operations showed steady improvement over this period as compared to the same period last year.

We have managed to liquidate certain large holdings in our investment portfolio, leading to an increase in the Group cash reserves.

All of our businesses have expanded their footprints, such as our corporate finance activities in the IPO market as well as in mergers and acquisitions. In the securities field, our futures online dealing platform enjoyed enhanced activities and the securities dealing activities was able to capture greater commissions during the period due to the increase in market activity and improved dealing on overseas securities. The website management and credit services business benefited from cost reductions and expanded institutional sales while Quam Data Services expanded its employee vetting operation under the logo of "TrustPlus".

The fund management and advisory services also expanded with the launch of three new funds. Assets under management and advisory now exceed HK$250 million. We see this activity as core to our overall objective of expanding our recurrent business.

Overall, costs have remained under control and we are confident that the continuous improvement of our business, will result in a brighter future.

Securities and futures dealing and placement and asset management

Our local trading volume was in line with the growth in the local market despite a lower volume in share placements. Our volume on overseas securities trading doubled as compared to the previous period. In addition, we expanded our online futures trading platform with the addition of some global futures trading products which have proved to be very popular amongst our client base. Our intention is to expand further the reach of this type of business in the second half together with margin financing and money lending.

This securities margin financing business stood steady with an average loan portfolio of approximately HK$115 million during the period, despite the fact that the prime lending interest rates increased from 5.25% to 7.25% during the period. We enjoyed increased revenues derived from our increased liquidity. We continue to maintain adequate loan loss provisions together with close supervision of the loan portfolio to contain exposures. Since September, prime lending rates have further increased and this will be beneficial to the Group as a significant portion of the loan book are funded by our capital.

In the field of asset management, we have launched three funds since June, which together with our role in funds advisory brings total funds under our supervision now exceeding HK$250 million.

Advisory services

The corporate financial advisory and general financial advisory services income for the period was up at HK$7.3 million (2004: HK$5.5 million). During the period, we completed the Group's second IPO sponsorship and have further completed an additional one in October which will be included in the second half results.

A significant aspect of our business has been our increased activities in the field of merger and acquisitions. Our success in this field has been enhanced by our joining an international organization known as M&A International Inc.

Website and financial and credit information services

The actual results do not translate adequately the progress made in this field. Although individual subscriptions have remained stable albeit at a level higher average revenue per user (ARPu) of HK$206 per month than previously HK$196 per month, we have made great strides in expanding our institutional, advertising and IR business. A new dedicated team for institutional sales was established while the advertising and IR team has expanded. These initiatives were further supported with the launch of the monthly Quam Money magazine as well as with our cooperation with the Open University of Hong Kong, under co-sponsored financial courses called "Value Investing Theory & Practice". We will further expand our reach towards the Mass Affluent sector with the distribution of a new daily called "The Roland Report". In July this year, we held the first series of wealth management seminars.

In the field of credit information, the most significant development was the acceptance by multi-nationals of our employee vetting product known as "TrustPlus". This product is an extension of the "know your clients" to also "know your employees" in light of new corporate governance regimes. It is getting more and more important to have a transparent environment and TrustPlus is one of the services that fulfills this requirement.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank balances and short term deposits as at 30 September 2005 amount to approximately HK$30.2 million (31 March 2005: HK$26.9 million).

The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in Hong Kong and short term loan from a third party. As at 30 September 2005, the Group had available aggregate banking facilities of approximately HK$105 million which are secured by legal charges on certain securities owned by the Group or its margin and money lending clients. The Group had pledged HK$1.5 million of its short term investments to secure banking facilities as at 30 September 2005. As at 30 September 2005, approximately HK$33.8 million was utilized on these banking facilities. The Group obtained and utilized, during the period, a short term loan of HK$20 million from a third party which is unsecured and bears interest at 8% per annum and the repayment is due on 31 January 2006.

The Group's gearing ratio, largely the result of the margin and money lending business, is 46.5 per cent as at 30 September 2005 (31 March 2005: 77.3 per cent).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 2005, the interests and short positions of the directors 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 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 Issuers were as follows:

Long Position

	Number of ordinary shares held and nature of interests				
Name of directors	Personal	Family	Corporate	Total	Percentage of shareholding
Mr. Bernard Pouliot	3,857,340	1,500,000 (note 1)	30,164,328 (note 2)	35,521,668	32.30
Mr. Kenneth Lam Kin Hing	3,777,006	–	20,274,810 (note 3)	24,051,816	21.87
Mr. Richard David Winter	2,192,573	–	–	2,192,573	1.99

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 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 2005, 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 OR DEBENTURES

The Company operates two share option schemes, which are 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"), for the purposes of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The particulars in relation to each share option scheme of the Company during the period are disclosed as follows:

Name of category of participant	Number of share options At 1 April 2005	Exercise during the period	Lapsed/ Cancelled during the period	At 30 September 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$
Options granted under the Old Scheme							
Employees							
In aggregate	530,560	–	–	530,560	5 March 2001	5 September 2001 to 8 September 2011	1.1875
	530,560	–	–	530,560			
Options granted under the New Scheme							
Directors							
Mr. Bernard Pouliot+	3,543,586	3,543,586	–	–	29 July 2002	29 July 2002 to 28 July 2012	0.67
Mr. Kenneth Lam Kin Hing+	3,543,586	–	–	3,543,586	29 July 2002	29 July 2002 to 28 July 2012	0.67
Mr. Richard David Winter+	3,543,586	–	–	3,543,586	29 July 2002	29 July 2002 to 28 July 2012	0.67
	10,630,758	3,543,586	–	7,087,172			

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\+ The share options granted to the respective participants in any 12 months period had exceeded 1% of the shares in issue of the Company and as such, independent shareholders' approval was obtained accordingly.

Save as disclosed above, at no time during the period ended 30 September 2005 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, so far as known to the directors of the Company, the following persons or corporations (other than the directors 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 pursuant to Section 336 of the SFO were as follows:

Long Position

Name of Shareholders	Number of Shares beneficially held	Percentage of shareholding
Olympia Asian Limited (note 1)	20,274,810	18.43
Newer Challenge Holdings Limited (note 2)	18,873,250	17.16
Porto Global Limited (note 2)	11,291,078	10.26

Notes:

1. Olympia Asian Limited is a company beneficially owned by Mr. Kenneth Lam Kin Hing, executive director and deputy chairman of the Company.

2. 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, the Company has not been notified of any other relevant interest or short position in the issued share capital of the Company (other than the directors of the Company) as at 30 September 2005.

EMPLOYMENT AND REMUNERATION POLICIES

For the period ended 30 September 2005, the Group had a total full time staff of 140 and had part time staff of 6. There were 16 staff based in the People's Republic of China.

Remuneration packages are generally structured by reference to market terms and individual merit. Salaries are normally reviewed and bonuses paid on annual basis based on performance appraisals and other relevant factors. Staff benefit plans maintained by the Group include mandatory provident fund scheme and medical and health 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*

Independent Non-executive Directors
Mr. Gordon Kwong Che Keung
Mr. Steven Kwan Ying Wai
Mr. Jeremy King
Mr. Esmond Quek Keng Liang
(re-elected as independent non-executive director on 16 September 2005)

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2005, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, except for the following deviations:

Code Provision A.2.1

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Deviation and its reasons

The Company does not have any office with the title "Chief Executive Officer". Mr. Bernard Pouliot is the Chairman of the Company and the Group Managing Director. Mr. Bernard Pouliot has been the Chairman of the Company since 19 April 2000. In view of the current operation of the Group, the management considers that the current structure, the size of the Group and its resources, the experience of Mr. Bernard Pouliot in respect to financial services business and his wealth of experience with listed issuers and leadership that it is currently most efficient to maintain this structure and therefore there is no imminent need to change this arrangement.

Code Provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

Deviation and its reasons

All the existing independent non-executive directors, except Mr. Esmond Quek Keng Liang, do not have a specific term of appointment. However, pursuant to the Company's Bye-laws that at each annual general meeting one-third of the directors for the time being shall retire from office by rotation, provided that every director shall be subject to retirement at least once every three years. Therefore, no director has an effective term of appointment longer than three years.

AUDIT COMMITTEE

The Company has an audit committee which was established for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company, namely Messrs. Gordon Kwong Che Keung (Chairman), Steven Kwan Ying Wai and Jeremy King. The audit committee has met with external auditors of the Group to review the accounting policies and practices adopted by the Group and the unaudited interim results of the Group for the six months ended 30 September 2005.

REMUNERATION COMMITTEE

The Company has established a remuneration committee which comprises three independent non-executive directors of the Company, namely Messrs. Jeremy King (Chairman), Gordon Kwong Che Keung and Steven Kwan Ying Wai and one executive director of the Company, namely Mr. Richard David Winter.

By order of the Board
Bernard Pouliot
Chairman

Hong Kong
16 December 2005

Certified Public Accountants
Member of Grant Thornton International

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To the Board of Directors of
Quam Limited
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim report set out on pages 1 to 16.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim report for the six months ended 30 September 2005.

Grant Thornton
Certified Public Accountants

Hong Kong
16 December 2005