



**Quam Limited**  
*(Incorporated in Bermuda with limited liability)*

Interim Report 2006  
Stock Code : 952



*Investment Strategies*

## Condensed Consolidated Income Statement

For the six months ended 30 September 2006

### 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 2006 together with the comparative figures for the corresponding period as follows:

	Notes	Six months ended 30 September 2006 HK\$'000 Unaudited	2005 HK\$'000 Unaudited
Revenue/Turnover	4	82,690	46,024
Fair value gain on financial assets at fair value through profit or loss		4,503	3,924
Other operating income	5	7,384	3,281
Cost of services provided		(23,361)	(14,558)
Interest expenses for financial service operations		(4,416)	(1,924)
Staff costs	6	(36,161)	(22,727)
Depreciation and amortisation expenses		(1,756)	(2,339)
Provision for impairment of goodwill	11	(43)	–
Other operating expenses, net		(13,695)	(9,071)
<b>Profit from operations</b>	6	<b>15,145</b>	<b>2,610</b>
Finance costs		–	–
Share of results of an associate	14	258	–
<b>Profit before income tax</b>		<b>15,403</b>	<b>2,610</b>
Income tax expense	7	(2,587)	–
<b>Profit for the period, attributable to equity holders of the Company</b>		<b>12,816</b>	<b>2,610</b>
<b>Dividend</b>	8	<b>4,389</b>	<b>–</b>
Earnings per share for profit attributable to equity holders of the Company during the period	9		
– Basic		4.42 cents	0.98 cent*
– Diluted		4.30 cents	N/A

\* Restated

## Condensed Consolidated Balance Sheet

As at 30 September 2006

	Notes	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	3,857	3,823
Goodwill	11	14,695	14,695
Other intangible assets	12	5,866	7,547
Available-for-sale financial assets	13	6,955	7,150
Interest in an associate	14	278	–
Other assets	15	3,950	3,875
		<b>35,601</b>	<b>37,090</b>
<b>Current assets</b>			
Trade receivables	16	245,892	214,129
Short term loan receivables		7,341	2,423
Prepayments, deposits and other receivables		9,255	5,754
Financial assets at fair value through profit or loss	17	17,810	17,159
Trust time deposits held on behalf of customers		180,590	217,937
Trust bank balances held on behalf of customers		52,712	29,549
Cash and cash equivalents		31,138	21,484
		<b>544,738</b>	<b>508,435</b>
<b>Current liabilities</b>			
Trade payables	18	298,252	309,216
Borrowings	19	92,694	79,293
Provision for tax		3,110	524
Other payables and accruals		44,538	32,170
Due to an associate	14	20	–
		<b>438,614</b>	<b>421,203</b>
<b>Net current assets</b>		<b>106,124</b>	<b>87,232</b>
<b>Total assets less current liabilities</b>		<b>141,725</b>	<b>124,322</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		36	36
<b>Net assets</b>		<b>141,689</b>	<b>124,286</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	20	1,463	1,135
Reserves		140,226	123,151
<b>Total equity</b>		<b>141,689</b>	<b>124,286</b>

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2006

	Equity attributable to equity holders of the Company							
	Share capital HK\$'000 Unaudited	Share premium HK\$'000 Unaudited	Contributed surplus HK\$'000 Unaudited	Share-based compensation reserve HK\$'000 Unaudited	Capital redemption reserve HK\$'000 Unaudited	Exchange reserve HK\$'000 Unaudited	Retained profits HK\$'000 Unaudited	Total HK\$'000 Unaudited
At 1 April 2005	1,064	-	65,708	-	932	-	42,923	110,627
Exercise of share options	36	2,339	-	-	-	-	-	2,375
Translation differences (net income recognised directly in equity)	-	-	-	-	-	31	-	31
Profit for the period	-	-	-	-	-	-	2,610	2,610
Total recognised income and expense for the period	-	-	-	-	-	31	2,610	2,641
At 30 September 2005	1,100	2,339	65,708	-	932	31	45,533	115,643
At 1 April 2006	1,135	4,677	65,708	-	932	31	51,803	124,286
Exercise of share options*	35	2,340	-	-	-	-	-	2,375
Bonus issue	293	(293)	-	-	-	-	-	-
Translation differences (net income recognised directly in equity)	-	-	-	-	-	6	-	6
Profit for the period	-	-	-	-	-	-	12,816	12,816
Total recognised income and expense for the period	-	-	-	-	-	6	12,816	12,822
Share-based compensation	-	-	-	2,206	-	-	-	2,206
Transfer of contributed surplus**	-	-	(25,000)	-	-	-	25,000	-
At 30 September 2006	1,463	6,724	40,708	2,206	932	37	89,619	141,689

\* Mr. Richard David Winter, executive director of the Company, had 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 May 2006.

\*\* Pursuant to the Bye-laws of the Company, it was resolved by the directors of the Company that with effect from 30 September 2006, an amount of HK\$25,000,000 be transferred from contributed surplus to retained profits.

## Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2006

	Six months ended 30 September 2006 HK\$'000 Unaudited	2005 HK\$'000 Unaudited
Net cash (outflow)/inflow from operating activities	(10,503)	32,032
Net cash inflow from investing activities	4,381	598
Net cash inflow/(outflow) from financing activities	15,776	(29,324)
Net increase in cash and cash equivalents	9,654	3,306
Cash and cash equivalents at 1 April	21,484	26,918
Cash and cash equivalents at 30 September	31,138	30,224
Analysis of balances of cash and cash equivalents		
Cash and bank balances	27,379	24,204
Time deposits with original maturity of less than three months	3,759	6,020
	31,138	30,224

# Notes to Interim Financial Statements

For the six months ended 30 September 2006

## 1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply 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 Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

## 2. THE PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 March 2006, except as described below.

In the six months ended 30 September 2006 (“the Period”), the Group made a new investment in an associate. The Group has applied HKAS 28 “Investments in Associates” to account for this new investment. Investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. The Group’s share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

In the current interim period, the Group has applied, for the first time, a number of new or revised Hong Kong Financial Reporting Standards (“new HKFRS”) issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2006 and are relevant to its operations, as set out below:

HKFRS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new HKFRS has no material effect on the Group’s results and financial position for the current and prior periods.

# Notes to Interim Financial Statements

For the six months ended 30 September 2006

## 2. THE PRINCIPAL ACCOUNTING POLICIES (Continued)

### New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such standards and interpretation will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC) – Int 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives <sup>3</sup>
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1 May 2006

<sup>3</sup> Effective for annual periods beginning on or after 1 June 2006

<sup>4</sup> Effective for annual periods beginning on or after 1 November 2006

## 3. SEGMENT INFORMATION

### (a) Primary reporting format – business segments

The Group's operating business are structured and managed separately, according to the nature of their operations and the services they provide. 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 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 asset management services segment engages in fund management, discretionary portfolio management and portfolio management advisory services;

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 3. SEGMENT INFORMATION (Continued)

#### (a) Primary reporting format – business segments (Continued)

- (v) the website management segment engages in the management of a website, advertising and referral tools to online customers and credit information services; and
- (vi) the investments segment engages in investment holding and securities trading.

The Group's inter-segment transactions were related to margin financing, advisory and website management and related service income. Inter-segment revenue is determined by directors and is based on pricing policies similar to those contracted with independent third parties, where applicable.

Segment information for the six months ended 30 September 2006 and 2005 is as follows:

	Securities broking and placement HK\$'000	Margin financing and money lending HK\$'000	Advisory HK\$'000	Asset management HK\$'000	Website management HK\$'000	Investments HK\$'000	Eliminations HK\$'000	Total HK\$'000
2006	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
<b>Segment revenue</b>								
Sales to external customers	41,650	11,281	14,904	3,570	11,285	-	-	82,690
Inter-segment sales	-	-	780	-	397	-	(1,177)	-
<b>Total</b>	<b>41,650</b>	<b>11,281</b>	<b>15,684</b>	<b>3,570</b>	<b>11,682</b>	<b>-</b>	<b>(1,177)</b>	<b>82,690</b>
<b>Segment results</b>								
	6,893	2,435	5,751	630	(3,721)	3,433		15,421
Interest income								4,105
Unallocated corporate expenses								(4,381)
<b>Profit from operations</b>								<b>15,145</b>
Finance costs								-
<b>Share of results of an associate</b>								<b>258</b>
<b>Profit before income tax</b>								<b>15,403</b>
Income tax expense								(2,587)
<b>Profit for the period</b>								<b>12,816</b>



## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 3. SEGMENT INFORMATION (Continued)

#### (a) Primary reporting format – business segments (Continued)

	Securities broking and placement HK\$'000 Unaudited	Margin financing and money lending HK\$'000 Unaudited	Advisory HK\$'000 Unaudited	Asset management HK\$'000 Unaudited	Website management HK\$'000 Unaudited	Investments HK\$'000 Unaudited	Eliminations HK\$'000 Unaudited	Total HK\$'000 Unaudited
2005								
<b>Segment revenue</b>								
Sales to external customers	21,096	5,977	7,263	795	10,893	-	-	46,024
Inter-segment sales	-	-	750	-	206	-	(956)	-
<b>Total</b>	<b>21,096</b>	<b>5,977</b>	<b>8,013</b>	<b>795</b>	<b>11,099</b>	<b>-</b>	<b>(956)</b>	<b>46,024</b>
<b>Segment results</b>	<b>2,518</b>	<b>1,072</b>	<b>678</b>	<b>268</b>	<b>(2,316)</b>	<b>2,314</b>		<b>4,534</b>
Interest income								1,110
Unallocated corporate expenses								(3,034)
<b>Profit from operations</b>								<b>2,610</b>
Finance costs								-
Share of results of an associate								-
<b>Profit before income tax</b>								<b>2,610</b>
Income tax expense								-
<b>Profit for the period</b>								<b>2,610</b>

#### (b) Secondary reporting format – 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% of the Group's revenue.

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 4. REVENUE/TURNOVER

Revenue, which is also the Group's turnover, represents:

	Six months ended 30 September 2006 HK\$'000 Unaudited	Six months ended 30 September 2005 HK\$'000 Unaudited
Advertising and content fee income	1,483	1,266
Website management and related services fee income	8,018	7,433
Commission income on securities and futures broking	33,681	18,152
Advisory fee income	14,904	7,263
Placement and underwriting fee income	7,969	2,944
Income from margin financing and money lending operations	11,281	5,977
Fund management fee income	3,570	795
Credit information service fee income	1,784	2,194
	82,690	46,024

### 5. OTHER OPERATING INCOME

	Six months ended 30 September 2006 HK\$'000 Unaudited	Six months ended 30 September 2005 HK\$'000 Unaudited
Interest income from banks and others	4,105	1,110
Exchange gains, net	704	506
Sundry income	2,575	1,665
	7,384	3,281

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 6. PROFIT FROM OPERATIONS

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

	Six months ended 30 September 2006 HK\$'000 Unaudited	Six months ended 30 September 2005 HK\$'000 Unaudited
Amortisation of other intangible assets (note 12)	905	946
Depreciation of property, plant and equipment (note 10)	851	1,393
	1,756	2,339
Staff costs (including directors' remuneration):		
Salaries and other allowances	33,505	22,195
Retirement benefits scheme contribution	575	532
Employee share-based compensation*	2,081	–
	36,161	22,727
Consultancy fee for marketing and promotion**	6,483	2,385
Provision for impairment of goodwill (note 11)	43	–
(Gain)/loss on disposal of property, plant and equipment	(152)	5
Provision for impairment of trade receivables	65	521

\* Pursuant to HKFRS 2 "Share-based payments", share options granted on or after 7 November 2002, are required to be recognised in the financial statements of the Company. As such, the share options granted during the Period have varying vesting periods of 12, 24 and 36 months. These share options have been independently valued and are recognised over their respective vesting periods.

\*\* included in cost of services provided

### 7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rates of 17.5% (2005: 17.5%) on the estimated assessable profit for the period.

	Six months ended 30 September 2006 HK\$'000 Unaudited	Six months ended 30 September 2005 HK\$'000 Unaudited
Current tax		
– Hong Kong		
Tax for the period	2,587	–

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 7. INCOME TAX EXPENSE (Continued)

As at 30 September 2006, a provision was made for deferred tax liabilities of HK\$36,000 (31 March 2006: HK\$36,000) calculated at the rate of 17.5% (31 March 2006: 17.5%) in respect of the temporary differences arising from accelerated depreciation allowances.

As at 30 September 2006, the principal components of the Group's unrecognised deferred tax assets/(liabilities) calculated at 17.5% (31 March 2006: 17.5%) on the cumulative temporary differences are analysed as follows:

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Accelerated depreciation allowances	(71)	(211)
Tax losses	23,233	23,449
Other temporary differences	498	473
	23,660	23,711

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

### 8. DIVIDEND

	Six months ended 30 September 2006 HK\$'000 Unaudited	Six months ended 30 September 2005 HK\$'000 Unaudited
Interim dividend of HK1.50 cents (2005: Nil) per ordinary share	4,389	–

On 30 November 2006, the Board resolved to declare and pay an interim dividend of HK1.50 cents (2005: Nil) per ordinary share, to shareholders whose names appear on the register of members of the Company on 20 December 2006. There were 292,611,890 ordinary shares of HK\$0.005 each in issue, after adjusting for the share subdivision (subdividing every issued and unissued ordinary share of par value of HK\$0.01 each into two ordinary shares of par value of HK\$0.005 each) which took effect on 3 October 2006 ("Share Subdivision").

The interim dividend will be paid on or about 22 January 2007.

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to equity holders of the Company of approximately HK\$12,816,000 (2005: HK\$2,610,000) and on the weighted average of 289,949,360 (2005: 266,277,043, restated) ordinary shares in issue during the period after adjusting for the Share Subdivision which took effect on 3 October 2006.

During the period, the Company approved a bonus issue of ordinary shares on the basis of one new share of par value of HK\$0.01 each for every four existing shares of par value of HK\$0.01 each on 18 September 2006 ("Bonus Issue"). On 3 October 2006, the Company subdivided every issued and unissued ordinary share of par value of HK\$0.01 each into two ordinary shares of par value of HK\$0.005 each. The weighted average number of ordinary shares for the six months ended 30 September 2005, as if the Bonus Issue and Share Subdivision had occurred on 1 April 2005, was deemed to be 266,277,043 shares (106,510,817 shares before restatement).

The calculation of diluted earnings per share for the period is based on the unaudited profit for the period attributable to equity holders of the Company of HK\$12,816,000 and the weighted average of 297,680,298 ordinary shares outstanding during the period, adjusted for the effects of all dilutive potential shares. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 289,949,360 ordinary shares in issue during the period, as used in the calculation of the basic earnings per share, plus the weighted average number of 7,730,938 ordinary shares deemed to be issued at no consideration as if the share options have been exercised.

Diluted earnings per share has not been presented for the six months ended 30 September 2005 as the share options outstanding during the six months ended 30 September 2005 had no dilutive effect on the basic earnings per share.

### 10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000 Unaudited	Furniture, fixtures and equipment HK\$'000 Unaudited	Total HK\$'000 Unaudited
Net book value at 1 April 2006	558	3,265	3,823
Additions	–	945	945
Disposals	–	(74)	(74)
Depreciation	(222)	(629)	(851)
Translation differences	2	12	14
<b>Net book value at 30 September 2006</b>	<b>338</b>	<b>3,519</b>	<b>3,857</b>

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 11. GOODWILL

The net carrying amount of goodwill can be analysed as follows:

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Net carrying amount at beginning of the period/year	14,695	14,695
Acquisition of a subsidiary (note 22)	43	–
Provision for impairment	(43)	–
Net carrying amount at end of the period/year	14,695	14,695

### 12. OTHER INTANGIBLE ASSETS

	Trading rights HK\$'000 Unaudited	Database HK\$'000 Unaudited	Total HK\$'000 Unaudited
Net book value at 1 April 2006	6,750	797	7,547
Amortisation	(884)	(21)	(905)
Disposals	–	(776)	(776)
Net book value at 30 September 2006	5,866	–	5,866

All amortisation are included in “depreciation and amortisation expenses” in the income statement.

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Club debenture		
At cost (note (a))	–	653
Less: Provision for impairment	–	(453)
	–	200
Unlisted equity securities		
At cost (note (a))	18,703	18,698
Less: Provision for impairment	(11,748)	(11,748)
	6,955	6,950
	6,955	7,150

Note:

- (a) Upon the adoption of HKAS 39, the club debenture and the investment in unlisted equity securities are stated at cost less accumulated impairment losses as they do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Particulars of the investee companies, disclosed pursuant to Section 129(2) of the Hong Kong Companies Ordinance as the Group held equity interests exceeding 20% of the issued share capital of the investee companies, are as follows:

Name	Place of incorporation	Percentage of issued share capital held by the Group		Carrying value of the Group's investments as at
		2006	2005	30 September 2006 HK\$'000
Gigabyte International Holdings Limited ("Gigabyte")	British Virgin Islands	47.7	47.7	3,987

The Group has not accounted for Gigabyte as an associate because Gigabyte's main asset is a 4.45% interest in an Internet Telecommunication Services Company ("Teleco"). The primary business activity of Teleco is provision of internet access, internet hosting and related services. Gigabyte has no significant influence over Teleco and has no board representation in that company. The directors consider Gigabyte to be an investment holding vehicle for its interest in Teleco, and hold it for no other reason. The investment in Gigabyte has accordingly been accounted for as an available-for-sale financial asset based on the value of its interest in Teleco.

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 14. INTEREST IN AN ASSOCIATE

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Balance at beginning of the period/year	–	–
Acquisition of an associate	20	–
Share of associate's results		
– Profit before income tax	415	–
– Income tax expense	(157)	–
	258	–
	278	–
<b>Balance with an associate</b>		
Due to an associate	20	–

The balance with associate is unsecured, interest-free and repayable on demand.

Particulars of an associate as at 30 September 2006 are as follows:

Name	Place of incorporation	Nominal value of issued capital	Percentage of ownership interest attributable to the Group	Principal activities
Verify Limited	Mauritius	10,000 ordinary shares of US\$1 each	25%	Investment holding and provision of verification services

The summarised financial information in respect of the Group's associate, based on its unaudited management accounts are set out below:

	HK\$'000
Total assets	7,330
Total liabilities	6,220
Revenue	5,555
Profit for the period	1,032

### 15. OTHER ASSETS

Other assets comprise deposits with stock and futures exchanges and clearing companies.



## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 16. TRADE RECEIVABLES

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Trade receivables	255,657	223,828
Less: provision for impairment of receivables	(9,765)	(9,699)
Trade receivables – net	245,892	214,129

The Group's trade receivables as at 30 September 2006 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 clients receivables which are repayable on demand and therefore, no aging 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 as at the balance sheet date, based on due date and net of provision, is as follows:

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Repayable on demand – margin clients receivables	146,015	133,112
Within 180 days	97,137	80,008
180 days – 360 days	1,941	791
Over 360 days	799	218
	245,892	214,129

Included in the Group's margin clients receivable was an amount due from a director of HK\$2,928,000 (31 March 2006: HK\$2,786,000 for two directors) in respect of transactions in securities as at 30 September 2006.

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Listed equity securities, at market value:		
Hong Kong	13,604	15,698
Elsewhere	8	13
Listed warrants in Hong Kong, at market value	125	203
Overseas unlisted equity securities, at fair value <sup>#</sup>	4,073	1,245
	17,810	17,159
Market value of listed investments	13,737	15,914

The carrying amounts of the above financial assets at fair value through profit or loss are classified as held for trading.

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement.

# The overseas unlisted equity securities represents the Group's investments in an investment fund. The fair value of this investment is determined with reference to the investment fund's net asset value as of 30 September 2006.

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 18. TRADE PAYABLES

Included in the Group's trade payables as at 30 September 2006 were client payables of HK\$267,780,000 (31 March 2006: HK\$303,487,000) for which funds had been or would be segregated to the Group's trust bank/time deposits accounts for settlement in accordance with the securities and futures broking industry practice.

The aging analysis of the trade payables of the Group as at 30 September 2006 is as follows:

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Repayable on demand:		
<i>Securities transactions</i>		
– margin clients payable	83,378	134,504
– cash clients payable	142,202	123,795
<i>Futures and options contracts</i>		
– clients payable	42,386	45,389
	267,966	303,688
Within 180 days	30,226	5,474
Over 180 days	60	54
	298,252	309,216

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 aging analysis is disclosed.

Included in above, there were an amounts due to two directors of HK\$45,000 (31 March 2006: HK\$128,000 for a director) in respect of transactions in securities as at 30 September 2006.

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 19. BORROWINGS

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Bank loans (secured)	52,694	59,293
Other loan (unsecured)	40,000	20,000
<b>Total</b>	<b>92,694</b>	<b>79,293</b>

At 30 September 2006, the Group's borrowings were repayable as follows:

	30 September 2006		31 March 2006	
	Bank loans HK\$'000 Unaudited	Other loan HK\$'000 Unaudited	Bank loans HK\$'000 Audited	Other loan HK\$'000 Audited
On demand	52,694	–	59,293	–
Within one year	–	40,000	–	20,000
<b>Total</b>	<b>52,694</b>	<b>40,000</b>	<b>59,293</b>	<b>20,000</b>

- (a) The bank loans of the Group were secured by marketable securities of HK\$155 million (31 March 2006: HK\$224 million) pledged to the Group by margin clients and certain of the Group's listed equity securities included under financial assets at fair value through profit or loss and cash at bank amounting to HK\$7.2 million (31 March 2006: HK\$6.7 million) and HK\$717,000 (31 March 2006: HK\$130,000) respectively. The bank loans of the Group bears floating interest rates ranging from 4.9% to 7.42% per annum (31 March 2006: 6.15% to 6.95% per annum).
- (b) Other loan of HK\$40,000,000 (31 March 2006: HK\$20,000,000) bears fixed interest rate at 7.3% per annum (31 March 2006: 7% per annum) and is repayable on 31 January 2007.
- (c) The carrying amounts of short term borrowings approximate their fair value.

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 19. BORROWINGS (Continued)

(d) The carrying amount of the borrowings are denominated in the following currencies:

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Hong Kong dollars	85,790	65,000
United States dollars	6,904	14,293
	<b>92,694</b>	<b>79,293</b>

### 20. SHARE CAPITAL

	30 September 2006 Number of shares		31 March 2006 Number of shares	
	HK\$'000 Unaudited	HK\$'000 Audited	HK\$'000 Audited	HK\$'000 Audited
Authorised:				
Ordinary shares of HK\$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK\$0.01 each				
At beginning of the period/year	113,501,170	1,135	106,413,998	1,064
Exercise of share options (note (a))	3,543,586	35	7,087,172	71
Bonus issue (note (b))	29,261,189	293	-	-
At end of the period/year	<b>146,305,945</b>	<b>1,463</b>	<b>113,501,170</b>	<b>1,135</b>

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 20. SHARE CAPITAL (Continued)

Notes:

- (a) Mr. Richard David Winter, executive director of the Company, had 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 May 2006.
- (b) On 21 July 2006, the directors of the Company recommended a bonus issue to the shareholders of the Company (except overseas shareholders) on the basis of one bonus share for every four shares of the Company for approval by the shareholders at the annual general meeting of the Company held on 18 September 2006. The bonus shares had been credited as fully paid by way of capitalisation of an amount of about HK\$292,612 in the share premium account of the Company. The bonus shares ranked pari passu in all respects with the shares of the Company and the Company did not allot any fractions of bonus shares.
- (c) Subsequent to the period end date, each of the existing issued and unissued ordinary shares of par value of HK\$0.01 each in the share capital of the Company was subdivided into two ordinary shares of HK\$0.005 each on 3 October 2006.

### 21. OPERATING LEASE COMMITMENTS

At 30 September 2006, the total future minimum lease payments under non-cancellable operating leases, in respect of land and buildings, are payable as follows:

	30 September 2006 HK\$'000 Unaudited	31 March 2006 HK\$'000 Audited
Within one year	9,590	7,209
In the second to fifth years, inclusive	13,306	6,662
	22,896	13,871

The Group leases a number of properties under operating leases. The leases run for an initial period of one to three years. None of the leases includes contingent rentals.

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 22. BUSINESS COMBINATIONS

On 29 September 2006, the Group acquired 100% of the equity interest of Quam Wealth Management Limited ("Quam Wealth"), a company formerly known as Qleap Financial Services Limited, which engages in insurance broker business.

Details of net assets acquired and goodwill arising on acquisition were as follows:

	HK\$'000 Unaudited
Total purchase consideration – cash paid	180
Fair value of net identifiable assets acquired	(137)
Goodwill (note 11)	43

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK\$'000	Acquiree's carrying amount HK\$'000
Cash and bank balances	136	136
Other receivables	1	1
Net assets acquired	137	137
Purchase consideration settled in cash		180
Cash and cash equivalents in subsidiary acquired		(136)
Net cash outflow arising on acquisition of Quam Wealth		44

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 23. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these 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	Six months ended 30 September 2006 HK\$'000 Unaudited	Six months ended 30 September 2005 HK\$'000 Unaudited
<b>Related companies</b>			
Consultancy fee income received	(a)	1,058	1,384
Commission income on broking:			
Baroque Investments Limited, a company in which Mr Bernard Pouliot has indirect interests	(b)	16	41
Porto Global Limited, a company in which Mr Bernard Pouliot has 100% interests	(b)	–	8
Newer Challenge Holdings Limited, a company in which Mr Bernard Pouliot has 100% interests	(b)	2	–
Interest income on margin financing:			
Baroque Investments Limited, a company in which Mr Bernard Pouliot has indirect interests,	(b)	244	58
Porto Global Limited, a company in which Mr Bernard Pouliot has 100% interests	(b)	–	4
Newer Challenge Holdings Limited, a company in which Mr Bernard Pouliot has 100% interests	(b)	1	–
Interest expense on margin financing	(c)	(224)	(249)
<b>Directors</b>			
Commission income on broking:			
Bernard Pouliot	(b)	49	49
Kenneth Lam Kin Hing	(b)	63	34
Richard David Winter	(b)	6	–
Interest income on margin financing:			
Bernard Pouliot	(b)	92	114
Kenneth Lam Kin Hing	(b)	1	–
<b>Close family members of the directors</b>			
Commission income on broking:			
Chan Wai Yin, Elizabeth, spouse of Bernard Pouliot	(b)	–	5
Interest income on margin financing:			
Chan Wai Yin, Elizabeth, spouse of Bernard Pouliot	(b)	1	5



## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 23. RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (a) Consultancy fees were received from a related company, which has common directors with the Company, for the provision of advisory services and were charged based on mutually agreed terms.
- (b) The commission and interest charged to the above parties were in accordance with the terms similar to those offered to unrelated customers.
- (c) The interest paid to a related company, which has common directors with the Company, was in accordance with the terms similar to those offered by unrelated brokers.

#### Compensation of key management personnel

Included in staff costs are key management personnel compensation and comprises the following categories:

	Six months ended 30 September 2006 HK\$'000 Unaudited	Six months ended 30 September 2005 HK\$'000 Unaudited
Short term employee benefits	2,859	2,641
Employee share-based compensation	891	–
Post-employment benefits	18	18
	3,768	2,659

## Notes to Interim Financial Statements

For the six months ended 30 September 2006

### 24. POST BALANCE SHEET EVENTS

On 21 July 2006, the directors of the Company proposed that each of the existing issued and unissued ordinary shares of par value of HK\$0.01 each in the share capital of the Company be subdivided into two ordinary shares of HK\$0.005 each (the "Share Subdivision"). The Share Subdivision became effective on 3 October 2006 after the passing of an ordinary resolution by the Company's shareholders and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the subdivided shares.

### 25. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform with changes in presentation in the current period where necessary.

The reclassification that has been made to the comparative figures in the condensed consolidated income statement for the six months ended 30 September 2005, to be consistent with the presentation in the Period's condensed consolidated income statement, is the consultancy fee for marketing and promotion of HK\$2,385,000 being classified from "Other Operating expenses, net" to "Cost of services provided".

The reclassification that has been made to the comparative figures in the primary reporting format of the segment information for the six months ended 30 September 2005, to be consistent with the presentation of the current period's primary reporting format of segment information, is the segment information for the asset management services segment being reclassified from the securities broking and placement segment and presented separately.

## INTERIM DIVIDEND

In view of the financial results during the period, the Board has declared an interim dividend of HK1.50 cents per share (2005: Nil) for the six months ended 30 September 2006.

The register of members will be closed from 18 December 2006 to 20 December 2006 both days inclusive and those persons whose names are registered as shareholders of the Company on 20 December 2006 will be entitled to receive the interim dividend. In order to qualify for the interim dividend, all transfers must be lodged with the Company's Hong Kong branch share registrar, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on 15 December 2006.

It is expected that the interim dividend will be paid to those entitled on or about 22 January 2007.

## FINANCIAL REVIEW

The Group reports an interim profit of HK\$12.8 million (2005: HK\$2.6 million). The Group's revenue for the period was HK\$82.7 million (2005: HK\$46.0 million) representing a significant increase of 80%.

## REVIEW OF OPERATIONS

The Group's continued financial improvement is in line with the robust economic growth and economic confidence in the region. We witnessed a strong increase in turnover in our core operation of securities and futures dealing as well as corporate financial advisory whilst benefiting from further growth in the asset management business. The website information and media business saw moderate growth in revenues and the recent refocusing into two business units has begun to show rewards. The credit service and employment screening business was merged in August and now represents a 25% holding in an expanded pan-Asian business named Verify Limited.

### **Securities and futures dealing and placement**

Securities and futures dealing commissions were HK\$33.7 million (2005: HK\$18.2 million), an increase of 85% over the same period last year. Placement fee income also was significantly up at HK\$8.0 million (2005: HK\$2.9 million) due to positive investment climate and contributed by the newly established institutional team. Our futures dealing business continued to show strong performance from the array of selected global futures products able to be traded.

## REVIEW OF OPERATIONS (Continued)

### Securities and futures dealing and placement (Continued)

The margin lending portfolio at period end was HK\$146 million (31 March 2006: HK\$133.1 million) which was in line with business activity. Going forward, with the introduction of new rules on repledge limits, management is further reviewing and monitoring the efficient use of its capital and funding facilities for margin lending business.

### Corporate financial advisory services

Income from corporate financial advisory services was HK\$14.9 million (2005: HK\$7.3 million). This major increase reflects increased activity and the completion of several major mandates during the period. Merger and acquisition interest in the Greater China region and our recent membership of M&A International Inc. continues to give us increased business opportunities. Our financial advisory business continues to grow as our capabilities are recognised in the middle markets.

### Asset management

Asset management revenues were HK\$3.6 million (2005: HK\$0.8 million). Fees earned from managing an expanded asset base have grown significantly and together with performance fees, should provide a good recurring income for the Group. Going forward, following extensive marketing of our performance of the funds under management to institutional investors and international distributors, we expect an accelerated expansion of this business.

Total funds under management and advisory at period end was over HK\$400 million (2005: HK\$250 million).

### Wealth management website

Quamnet has continued expanding its reach by refocusing its business under two units: Media and Subscriptions.

Our media business covers the financial website which includes all advertising, institutional sales and IR offline/online products and services.

The subscription business deals essentially with the promotion and sale of our research products.

## REVIEW OF OPERATIONS (Continued)

### Wealth management website (Continued)

Both operations have expanded their revenue base with total revenues now reaching HK\$9.5 million (2005: HK\$8.7 million) representing an increase of 9% over the same period last year. Our average monthly ARPU (average revenue per user) now stands at HK\$209 with over 5,000 paying subscribers. The division's biggest challenge is to enhance our visibility in China and a number of initiatives are now being undertaken with China based portals.

In tandem, to meet technically the mainland demand, additional capital expenditure will be required over the coming months.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash and bank balances and short-term deposits as at 30 September 2006 amount to approximately HK\$31.1 million (31 March 2006: HK\$21.5 million).

The Group generally finances its operations with internally generated cash flow and banking and short-term loan facilities provided by its principal bankers in Hong Kong and a short-term loan from a third party. As at 30 September 2006, the Group had available aggregate banking facilities of approximately HK\$135 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\$7.2 million of its investment securities to secure banking facilities as at 30 September 2006. As at 30 September 2006, approximately HK\$52.7 million was utilised on these banking facilities and utilised short-term funding of HK\$40 million from a third party which is unsecured and bears interest at 7.3% and matures on 31 January 2007.

The Group's gearing ratio, largely the result of the margin and money lending business and with the addition of IPO financing facilities, is 65.4% as at 30 September 2006 (31 March 2006: 63.8%).

## PROSPECTS

The positive outlook for the economy should be beneficial to our markets in the coming period. With world attention on China, we feel that our Group's strategy, in place since 2001, will further add momentum to our continued growth overall. Our financial services operation in terms of securities and futures trading, corporate financial advisory and asset management are benefiting from this positive environment. The current run of new listings on the Hong Kong market will continue to be a driver for a stronger market. We do not see any major impediments to market activity for the short to medium term. Regulatory limitations may cause us to seek diversification of our trading mix, however we do not see any immediate impact on current business. Corporate financial advisory deal flow continues to be healthy, with larger, quality deals firmly on the agenda.

As mentioned in our Annual Report 2006, Quamnet is reassessing its China strategy. With the refocusing at the beginning of the year of our business units, we should be able to scale-up our operations more rapidly.

The business transfer of Quam Data Services Limited, our credit and employment screening business, to the Verify Ltd group was completed in August 2006. We now have a 25% interest in a new pan-Asian group, which should multiply the business opportunities. From inception, Verify Ltd group has reported very positive contributions.

In September, the Group completed an acquisition of an insurance broker business, renaming it Quam Wealth Management Limited. This allows us to immediately enter the insurance broking business, whilst taking advantage of direct access to our wide customer base. We are fortunate to have identified an experienced team to lead and develop this business. In keeping with the Group's strategy to serve our clients through a one stop service center, insurance broking should be very complimentary to our other wealth management businesses.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2006, the interests and short positions of the directors of the Company in the 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 kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long Positions

Name of directors	Personal interests	Family interests	Corporate interests	Total interests	Number of ordinary shares of HK\$0.01 each		
					Total interests as % of the issued share capital	Underlying shares (share options)	Total interests (including underlying shares) as % of the issued share capital
Mr. Bernard Pouliot	4,821,675	1,875,000 (Note 1)	40,733,557 (Note 2)	47,430,232	32.41%	4,375,000	35.40%
Mr. Kenneth Lam Kin Hing	11,528,638	-	25,343,512 (Note 3)	36,872,150	25.20%	4,375,000	28.19%
Mr. Richard David Winter	7,971,198	-	-	7,971,198	5.44%	4,375,000	8.43%

#### Notes:

- The family interests of Mr. Bernard Pouliot are held by his spouse, Ms. Chan Wai Yin, Elizabeth.
- 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.
- 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.

In addition to the above, certain director has non-beneficial interests in certain subsidiaries held for the benefit of the Company or its subsidiaries.

## **DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)**

All the interests stated above represent long positions. The percentage shown was the number of securities the relevant director of the Company was interested expressed as a percentage of the number of issued shares as at 30 September 2006.

Save as disclosed above, as at 30 September 2006, none of the directors of the Company or their respective associates had or were deemed under the SFO to have any interest or short position 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. Despite the fact that no further options may be granted under the Old Scheme, all other provisions shall remain in force to govern all the outstanding options previously granted.

For the details of the Old Scheme and the New Scheme, please refer to our Annual Report 2006.



## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES (Continued)

The particulars of the share options outstanding under the Old Scheme and the New Scheme during the six months ended 30 September 2006 are as follows (*Note 1*):

Participants	Number of share options outstanding				Adjusted upon bonus issue of shares on 25 September 2006	At 30 September 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
	At 1 April 2006	Granted during the period	Exercised during the period	Cancelled/ during the period					
<b>Old Scheme</b>									
<b>Employees under continuous contract (Note 2)</b> In aggregate	489,600	-	-	31,360	114,560	572,800	5 March 2001	5 September 2001 to 8 September 2011	0.95
	489,600	-	-	31,360	114,560	572,800			
<b>New Scheme</b>									
<b>Employees under continuous contract (Notes 2, 4, 7)</b> In aggregate	-	10,200,000	-	850,000	2,337,500	11,687,500	9 June 2006	9 June 2006 to 8 June 2016	0.56
<b>Employees under continuous contract granted in excess of the individual limit</b>									
Mr. Stephen Christopher Hill (Notes 2, 4, 6, 7, 8, 9)	-	6,000,000	-	-	1,500,000	7,500,000	9 June 2006	9 June 2006 to 8 June 2016	0.56
Ms. Katherine Chan Wai Kay (Notes 2, 4, 6, 7, 8)	-	1,500,000	-	-	375,000	1,875,000	9 June 2006	9 June 2006 to 8 June 2016	0.56
<b>Other Participant</b> (Notes 4, 5)	-	400,000	-	-	100,000	500,000	9 June 2006	9 June 2006 to 8 June 2009	0.56

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES (Continued)

Participants	Number of share options outstanding				Adjusted upon bonus issue of shares on 25 September 2006	At 30 September 2006	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$
	At 1 April 2006	Granted during the period	Exercised during the period	Lapsed/ Cancelled during the period					
<b>New Scheme</b>									
<b>Directors</b>									
Mr. Bernard Pouliot (Notes 2, 4, 6, 7, 8)	-	3,500,000	-	-	875,000	4,375,000	9 June 2006	9 June 2006 to 8 June 2016	0.56
Mr. Kenneth Lam Kin Hing (Notes 2, 4, 6, 7, 8)	-	3,500,000	-	-	875,000	4,375,000	9 June 2006	9 June 2006 to 8 June 2016	0.56
Mr. Richard David Winter (Notes 2, 3, 7, 8)	3,543,586	-	3,543,586	-	-	-	29 July 2002	29 July 2002 to 28 July 2012	0.67
(Notes 2, 4, 6, 7, 8)	-	3,500,000	-	-	875,000	4,375,000	9 June 2006	9 June 2006 to 8 June 2016	0.56
	3,543,586	28,600,000	3,543,586	850,000	6,937,500	34,687,500			

### Notes:

1. The share options depicted in the above is after the bonus issue of shares on 25 September 2006 but prior to a share subdivision of each issued and unissued share of HK\$0.01 each into two shares of HK\$0.005 each which became effective on 3 October 2006.
2. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
3. The exercise of share options took place on 26 May 2006. Weighted average closing price of the shares of the Company immediately before the date on which the share options were exercised was HK\$0.68.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES (Continued)

Notes: (Continued)

- The share options were granted under the New Scheme at initial exercise price of HK\$0.70. The closing price of the shares of the Company quoted on the Stock Exchange on 8 June 2006, being the business date immediately before the date on which share options were granted, was HK\$0.70. The aggregate fair value of share options granted on 9 June 2006 using the Black-Scholes Option Pricing Model and undertaken by independent valuer was HK\$10,664,812. The valuations for the respective share options were made at date of grant or where applicable, when shareholders' approval was obtained.

The assumption used are as follows:

– Risk-free rate:	Ranged from 3.636% to 4.502%
– Expected volatility of underlying stock:	61.14% annualised for June 2005-2006 and 57.77% annualised for September 2005-2006
– Share price of underlying stock at date of grant:	HK\$0.70
– Expected exercise date:	Ranged from 9 June 2007 to 9 June 2009

The Black-Scholes Option Pricing Model was developed for use in estimating the fair value of options that have vesting restrictions. Such option pricing model requires input of subjective assumptions and certainty of which is subject to limitation conditions of the model.

Pursuant to HKFRS 2 "Share-based payments", share options granted on or after 7 November 2002, are required to be recognised in the financial statements of the Company. As such, the share options granted during the period are recognised over their respective vesting periods.

- The share options granted vest immediately from date of grant and are exercisable over a duration of 36 months from date of grant.
- The share options granted, in respect of number of shares which may fall to be issued upon exercise of share options in the 12-month period prior to the date of grant exceeded 1% of the shares in issue of the Company, were approved by independent shareholders of the Company in general meeting. In addition, the share options granted to directors and substantial shareholders had been approved by independent non-executive directors of the Company.
- The vesting period of the share options is in 3 consecutive 12 months periods from date of grant and only up to one third of the granted share options is exercisable upon completion of each vesting period. The share options granted shall be valid for 10 years from date of grant.
- The share options granted to the directors and certain employees are subject to a lock up period of 180 days from relevant date of allotment of the shares of the Company.
- The exercise of the share options granted will be subject to the attainment by the participant of a prescribed annual performance target during each of his first 3 years of employment with the Group commencing from 1 April 2006.

Save as disclosed above, at no time during the six months ended 30 September 2006 was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of the shares in or debentures of the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2006, so far as are known to the directors of the Company, the following persons (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 kept by the Company under section 336 of the SFO, or as otherwise notified to the Company, as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company were as follows:

### Long Positions

#### Number of ordinary shares of HK\$0.01 each

Name of shareholders	Corporate interests	Underlying shares (share options)	Total interests as % of the issued share capital
Olympia Asian Limited (Note 1)	25,343,512	–	17.32%
Newer Challenge Holdings Limited (Note 2)	24,385,562	–	16.66%
Porto Global Limited (Note 2)	16,347,995	–	11.17%
Mr. Stephen Christopher Hill	–	7,500,000	5.12%

#### 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.

All the interests stated above represent long positions. The percentage shown was the number of securities the relevant person was interested expressed as a percentage of the number of issued shares as at 30 September 2006.

Save as disclosed above, as at 30 September 2006, the Company had not been notified by any other person (other than the directors of the Company) who had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

## EMPLOYMENT AND REMUNERATION POLICIES

For the six months ended 30 September 2006, the Group had a total full time staff of 137 and part time staff of 4. Amongst them, there were 19 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. Jeremy King

Dr. Tian Yuan (*appointed on 18 September 2006*)

Mr. Ip Shing Hing, J.P. (*appointed on 18 September 2006*)

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2006, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

## SHARE CAPITAL

On 18 September 2006, the relevant ordinary resolutions were passed at the annual general meeting of the Company pursuant to which i) on the basis of one bonus share for every four shares of the Company, credited as fully paid by way of capitalisation of amounts standing to the credit of the share premium account of the Company, bonus shares were allotted to the shareholders of the Company on 25 September 2006 and ii) each of the existing issued and unissued shares of par value of HK\$0.01 each in the capital of the Company was subdivided into two shares of HK\$0.005 each (the "Share Subdivision"). The Share Subdivision became effective on 3 October 2006.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in the Model Code contained in Appendix 10 to the Listing Rules. Having made specific enquiry of all the directors of the Company, all of them confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 September 2006.

In addition, the Company also established written guidelines on terms no less exacting than the Model Code for relevant employees of the Company who are likely to be in possession of unpublished price-sensitive information in respect of their dealings in the securities of the Company.

## AUDIT COMMITTEE REVIEW

The interim results for the six months ended 30 September 2006 are unaudited, but have been reviewed by Grant Thornton, the external auditors of the Group, whose independent review report will be included in the Interim Report 2006 to be sent to shareholders of the Company. The audit committee has met with Grant Thornton to review the accounting policies and practices adopted by the Group and discuss auditing, internal control and financial reporting matters, including the review of the unaudited interim results of the Group for the six months ended 30 September 2006.

## CORPORATE GOVERNANCE PRACTICES

In the Corporate Governance Report which was published in our Annual Report 2006, we reported that the Company had adopted the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules as its own code on corporate governance practices, save for the deviations specified and explained therein.

## CORPORATE GOVERNANCE PRACTICES (Continued)

The Board believed that the Company has applied the principles and complied with the code provisions throughout the six months ended 30 September 2006 except that:

1. 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 operations 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.
2. All the independent non-executive directors of the Company (collectively or individually the “INED”), except Mr. Esmond Quek Keng Liang, do not have a specific term of appointment. However, pursuant to the Company’s Bye-laws, 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, including the INED, has an effective term of appointment longer than three years.

Mr. Esmond Quek Keng Liang resigned as the INED with effect from 13 September 2006 due to the completion of his term of office. At the annual general meeting of the Company held at 18 September 2006, Mr. Steven Kwan Ying Wai retired as the INED whereas both Dr. Tian Yuan and Mr. Ip Shing Hing, J.P. were appointed as the INED at such meeting.

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises three INED, namely Messrs. Gordon Kwong Che Keung (chairman), Jeremy King and Ip Shing Hing, J.P., with the chairman having appropriate professional qualification or accounting or related financial management expertise as required by the Stock Exchange.

The Company has established a remuneration committee for the purpose of reviewing and determining the framework or broad policy for remuneration packages of the directors and senior management of the Group, overseeing any major changes in employee benefit structures and considering other topics as defined by the Board. The remuneration committee comprises three INED, namely Messrs. Jeremy King (chairman), Gordon Kwong Che Keung and Ip Shing Hing, J.P. and an executive director of the Company, namely Mr. Richard David Winter. The executive directors are entitled to monthly salary and the INED are entitled to monthly directors’ fee with reference to the prevailing market condition.

## CORPORATE GOVERNANCE PRACTICES (Continued)

No Nomination Committee is established in view of the current business size of the Company. Currently, the Board is responsible for reviewing its composition, identifying and selecting suitable Board members, assessing independence of the INED, considering appointment or re-appointment of and succession planning for the directors of the Company.

By Order of the Board  
**Bernard Pouliot**  
*Chairman*

Hong Kong  
30 November 2006



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 financial report set out on pages 1 to 25.

## 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 financial 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 financial 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 financial 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 enquires of group management and applying analytical procedures to the interim financial 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 financial 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 financial report for the six months ended 30 September 2006.

**Grant Thornton**  
*Certified Public Accountants*

Hong Kong  
30 November 2006