

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

1. GENERAL INFORMATION

The registered office of Quam Limited (the “Company”) is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

During the year, the Group was involved in the following principal activities:

- securities and futures dealing, margin financing and money lending, and the provision of fund management services
- website management and related services, and the provision of credit information services
- provision of advisory and placement services
- investment holding and securities trading

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 18 to 52 are prepared in accordance with and comply with all applicable Statements of Standard Accounting Practice (“SSAPs”) and Interpretations issued by the Hong Kong Society of Accountants. The financial statements are prepared under the historical cost convention as modified by the periodic remeasurement of other equity securities, as further explained in note 2(i) below.

Adoption of revised SSAP

In the current year, the Group has adopted SSAP 12 (Revised) “Income taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional arrangements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. As a result, the Group has changed its accounting policies for deferred tax as detailed in note 2(k) below. The adoption of SSAP12 (Revised) has no material effect on the results for the current and prior years. Accordingly, no prior year adjustment is required.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of the subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

(d) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years.

SSAP 30 "Business combinations" was adopted as at 1 April 2001. Prior to that date, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to 1 April 2001 is treated in accordance with SSAP 30 as set out in the goodwill accounting policy above.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(e) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Leasehold improvements	10 years or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	5 to 10 years

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Intangible assets

Trading rights

Trading rights, representing the eligibility rights to trade on or through The Hong Kong Futures Exchange Limited and The Stock Exchange of Hong Kong Limited, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on the straight-line basis over their estimated useful lives of 10 years.

Database

Database, representing a database of credit and litigation information, is stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on the straight-line basis over its estimated useful life of 10 years.

(g) Other assets

Other assets held on a long term basis are stated at cost less any impairment losses, on an individual basis.

(h) Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the income statement on a straight-line basis over the lease terms.

(i) Investments

(i) *Investment securities*

Investment securities representing long term investments in unlisted equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the income statement for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Investments (Continued)

(ii) *Other equity securities*

All other equity securities in listed and unlisted securities, whether held for trading or otherwise, are stated at their fair values at the balance sheet date, on an individual investment basis.

The fair values of those listed securities are generally their quoted market prices at the balance sheet date. An appropriate discount to the market prices is made for listed securities not actively traded in a liquid market. The fair values of those unlisted securities are as estimated by the directors having regard to, *inter alia*, the prices of the most recent reported sales or purchases of similar listed securities, with allowance made for the lower liquidity of the unlisted securities. The gains or losses arising from changes in the fair values of such securities are credited or charged to the income statement in the period in which they arise.

(iii) *Held-to-maturity debt securities*

Investments in debt securities intended to be held until maturity are classified as held-to-maturity securities and are stated at amortised cost less any impairment losses.

The carrying amount of held-to-maturity securities is reviewed at the balance sheet date in order to assess the credit risk and appropriate provision is made when the investor is not expected to recover the carrying value of the investment in that security. The amount of the provision is recognised as an expense immediately.

(iv) *Other investments*

Other investments are stated at cost less any impairment losses at the balance sheet date.

(j) Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statement of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserves.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Income tax

Income tax comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(l) Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at bank, including time deposits, which are not restricted as to use.

(m) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Impairment of assets (Continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

(n) Provision

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

(o) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- (a) commissions and brokerage income, on a trade date basis;
- (b) advisory and placement fee income, advertising and content fee from the sales of banner advertisements and website content, service fee income from the provision of credit information and management fee income, when the services are provided;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) dividend income, when the shareholders' right to receive payment has been established;
- (e) realised gain/(loss) on other equity securities and other investments is recognised as revenue on a trade date basis; and
- (f) unrealised gain/(loss) on other equity securities is recognised when the equity securities are restated to fair value at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(p) Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of their retirement or termination of their employment. The Group is liable to make such payments in the event that such retirement or termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(q) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SEGMENT INFORMATION

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

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) the securities broking segment engages in securities and futures dealing, provision of fund management services, margin financing services and money lending;
- (ii) the website management segment engages in the management of a website, advertising and referral tools to online customers, and credit information services;
- (iii) advisory and placement segment engages in the provision of corporate finance advisory and placement services; and
- (iv) the investments segment engages in investment holding and trading.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain assets and liabilities and capital expenditure information for the Group's business segments.

	Securities broking		Advisory and placement		Website management		Investments		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	34,893	18,038	28,538	11,646	17,443	13,636	17,694	(35,242)	98,568	8,078
Segment results	16,564	(16,529)	4,016	(317)	(11,363)	(175,656)	7,213	(38,670)	16,430	(231,172)
Interest income and unallocated gains									439	278
Unallocated corporate expenses									(9,138)	(8,595)
Profit/(Loss) from operations									7,731	(239,489)
Finance costs									(1)	(186)
Profit/(Loss) before taxation									7,730	(239,675)
Taxation									-	-
Profit/(Loss) attributable to shareholders									7,730	(239,675)
Assets and liabilities										
Segment assets	329,459	170,562	7,173	3,791	10,529	14,576	26,450	37,290	373,611	226,219
Unallocated assets									1,219	3,968
Total assets									374,830	230,187
Segment liabilities	234,342	94,198	2,260	3,175	10,024	10,611	-	-	246,626	107,984
Unallocated liabilities									3,714	5,443
Total liabilities									250,340	113,427
Other segment information:										
Depreciation and amortisation:										
Segmented	4,923	5,465	91	16	3,246	3,397	-	-	8,260	8,878
Unallocated									34	108
									8,294	8,986
Impairment of goodwill	-	-	-	-	-	150,000	-	-	-	150,000
Provision for impairment of long term investments	-	-	-	-	-	-	5,700	8,563	5,700	8,563
Capital expenditure	606	513	392	44	918	1,853	-	-	1,916	2,410

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

3. SEGMENT INFORMATION (Continued)

(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, the People's Republic of China, which accounts for less than 1% of the Group's turnover.

4. TURNOVER

	2004 HK\$'000	2003 HK\$'000
Advertising and content fee income	2,530	2,542
Website management and related services fee income	11,756	9,195
Commission income on securities and futures broking	25,946	12,232
Advisory and placement fee income	28,538	11,646
Income from margin financing and money lending operations	7,407	5,315
Fund management fee income	1,540	491
Credit information service fee income	3,157	1,899
	80,874	43,320
Net realised and unrealised gains/(losses) on short term investments and other investments	17,694	(35,242)
Total turnover	98,568	8,078

5. OTHER REVENUE AND GAINS

	2004 HK\$'000	2003 HK\$'000
Interest income from banks and others	439	278
Exchange gains, net	948	119
Long outstanding trade and other payables written back	2,154	–
Sundry income	1,841	356
	5,382	753

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

6. PROFIT/(LOSS) FROM OPERATIONS

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

	2004 HK\$'000	2003 HK\$'000
Depreciation	4,427	5,117
Amortisation of intangible assets	1,893	1,841
Goodwill:		
Amortisation for the year	1,974	2,028
Impairment arising during the year	–	150,000*
	1,974	152,028
Minimum lease payments under operating leases in respect of land and building	5,816	7,668
Auditors' remuneration:		
Provision for the year	635	740
Underprovision in prior years	25	261
	660	1,001
Staff costs (including directors' remuneration):		
Wages and salaries	37,741	37,066
Provision for long service payments	163	192
Retirement benefits scheme contributions	879	1,209
Less: Forfeited contributions	–	(81)
	38,783	38,386
Loss on disposal of fixed assets	369	212
Net realised (gains)/losses on disposal of short term investments included in turnover	(3,941)	15,257
Net unrealised (gains)/losses on revaluation of short term investments included in turnover	(11,664)	19,985
Net realised gains on other investments	(2,089)	–
Provision for bad and doubtful debts	541	–
Write-off of deposits	466	–

* Due to the continuing loss performance of certain subsidiaries of the Group, the directors considered that the carrying amount of the goodwill arising from the acquisition of these subsidiaries exceeded their recoverable amounts and a provision for impairment of HK\$150,000,000 was made in 2003 for the Group's goodwill which was eliminated against the consolidated reserves (note 15).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and other borrowings repayable within five years	2,156	1,554
Interest on finance leases	–	42
Interest on convertible note payable	–	144
	2,156	1,740
Less: Interest expenses incurred for financial service operations	(2,155)	(1,554)
	1	186

8. DIRECTORS' REMUNERATION

Director's remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive Directors	–	–
Non-executive Directors	60	120
Independent Non-executive Directors	302	238
	362	358
Other emoluments to Executive Directors:		
Salaries, allowances and benefits in kind	6,289	4,848
Retirement benefits scheme contributions	36	168
	6,325	5,016
	6,687	5,374

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	4	6
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	2	1
	7	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

8. DIRECTORS' REMUNERATION (Continued)

During the year, no share options (2003: 10,630,758 share options) were granted to the directors in respect of their services to the Group, further details of which are set out in note 28 to the financial statements.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2003: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2003: three) non-director, highest paid employees are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	4,644	4,118
Retirement benefits scheme contributions	24	40
	4,668	4,158

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of individual	
	2004	2003
HK\$1,000,001 – HK\$1,500,000	–	3
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	1	–
	2	3

10. TAXATION

No provision for Hong Kong profits tax has been made in the financial statements as the Group had available tax losses brought forward from previous years.

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the profits tax rate in Hong Kong, and the reconciliation is as follows:

	2004 HK\$'000	2003 HK\$'000
Profit/(Loss) before taxation	7,730	(239,675)
Tax at Hong Kong profits tax rate of 17.5% (2003: 16%)	1,353	(38,348)
Effect of different tax rate for a subsidiary established in the People's Republic of China (at tax rate of 15%)	50	28
Tax effect of non-deductible expenses	1,563	26,801
Tax effect of non-taxable revenues	(99)	(456)
Tax losses not recognised as deferred tax asset	1,506	11,444
Tax effect of previous years' unrecognised tax losses utilised this year	(5,268)	(16)
Other temporary differences not recognised	895	547
Actual tax expense	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

11. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders includes a loss of HK\$49,405,000 (2003: loss of HK\$218,481,000) which has been dealt with in the financial statements of the Company.

12. EARNINGS/(LOSS) PER SHARE

The calculation of earnings/(loss) per share is based on the profit attributable to shareholders of HK\$7,730,000 (2003: loss of HK\$239,675,000), divided by the weighted average number of ordinary shares outstanding during the year of 106,413,998 (2003: 90,176,684) shares.

No diluted loss per share is presented as the effect of the assumed conversion of the potential ordinary shares outstanding is anti-dilutive.

13. FIXED ASSETS

Group

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost			
At 1 April 2003	7,579	31,202	38,781
Additions	1,103	813	1,916
Disposals	(5,168)	(13,117)	(18,285)
At 31 March 2004	3,514	18,898	22,412
Accumulated depreciation			
At 1 April 2003	6,582	23,325	29,907
Charge for the year	900	3,527	4,427
Disposals	(5,038)	(12,871)	(17,909)
At 31 March 2004	2,444	13,981	16,425
Net book value			
At 31 March 2004	1,070	4,917	5,987
At 31 March 2003	997	7,877	8,874

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

13. FIXED ASSETS (Continued)

Company

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost			
At 1 April 2003 and 31 March 2004	291	100	391
Accumulated depreciation			
At 1 April 2003	267	25	292
Charge for the year	24	10	34
At 31 March 2004	291	35	326
Net book value			
At 31 March 2004	–	65	65
At 31 March 2003	24	75	99

14. INTANGIBLE ASSETS

Group

	Trading rights HK\$'000	Database HK\$'000	Total HK\$'000
Cost			
At 1 April 2003	14,150	1,242	15,392
Additions	400	–	400
At 31 March 2004	14,550	1,242	15,792
Accumulated amortisation			
At 1 April 2003	2,493	73	2,566
Charge for the year	1,769	124	1,893
At 31 March 2004	4,262	197	4,459
Net book value			
At 31 March 2004	10,288	1,045	11,333
At 31 March 2003	11,657	1,169	12,826

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

15. GOODWILL

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

	Group HK\$'000
Cost	
At 1 April 2003 and 31 March 2004	20,641
Accumulated impairment and amortisation	
At 1 April 2003	3,972
Charge for the year	1,974
At 31 March 2004	5,946
Net book value	
At 31 March 2004	14,695
At 31 March 2003	16,669

As detailed in note 2(d) to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill in respect of acquisitions which occurred prior to 1 April 2001, to remain eliminated against consolidated reserves.

The amount of goodwill remaining in consolidated reserves as at 31 March 2004, arising from the acquisition of subsidiaries prior to 1 April 2001, is as follows:

	Group HK\$'000
Cost	
At 1 April 2003 and 31 March 2004	197,398
Accumulated impairment	
At 1 April 2003 and 31 March 2004	150,000
Net amount	
At 31 March 2003 and 31 March 2004	47,398

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. INTERESTS IN SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	159,929	159,929
Amounts due from subsidiaries	245,333	237,666
Amount due to a subsidiary	(16,215)	(16,223)
	389,047	381,372
Less: Provision for impairment	(286,568)	(231,301)
	102,479	150,071
Less: Portion classified under current assets	(5,000)	(10,000)
	97,479	140,071

Except for an amount due from a subsidiary of HK\$5,000,000 (2003: HK\$10,000,000) which bears interest at the range between 2.1% to 2.2% (2003: 4.4375%) per annum and is repayable within one year and included in the Company's current assets, all the other balances with subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

The directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying amount of the interests in subsidiaries as at 31 March 2004.

Particulars of the principal subsidiaries as at 31 March 2004 are as follows:

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Quam Capital (Holdings) Limited	Hong Kong	HK\$78,260,002	100	–	Investment holding
Wolf Holdings Limited	British Virgin Islands	US\$1,000	100	–	Investment holding
Quam.net Limited	Hong Kong	HK\$8,119,974	100	–	Investment holding
Quam Asset Management Limited	Hong Kong	HK\$1,000,000	–	100	Investment adviser
Quam Capital Limited	Hong Kong	HK\$4,800,000	–	100	Corporate finance and investment adviser
Quam Corporate Services Limited	Hong Kong	HK\$2	–	100	Secretarial services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries (Continued):

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Quam Finance Limited	Hong Kong	HK\$54,200,000	–	100	Finance and money lending
Quam Futures Limited	Hong Kong	HK\$6,500,000	–	100	Futures trading
Quam Securities Company Limited	Hong Kong	HK\$40,000,000	–	100	Securities dealing
Quam (H.K.) Limited	Hong Kong	HK\$5,000,000	–	100	Website management and other related services
Quam (IA) Limited	Hong Kong	HK\$2,000	–	100	Investment adviser and restricted securities dealer
Quam Ventures (BVI) Limited	British Virgin Islands	US\$1	–	100	Investment holding
Well Foundation Company Limited	Hong Kong	HK\$20	–	100	Investment holding
Quam (China) Limited	Hong Kong	HK\$100	–	100	Website management and other related services
Quam Data Services Limited	Hong Kong	HK\$1,000	–	100 (2003:94)	Provision of credit information services

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

17. LONG TERM INVESTMENTS

	2004 HK\$'000	Group 2003 HK\$'000
Club debenture	653	653
Investment securities		
Unlisted equity securities, at cost	17,829	18,841
Other equity securities		
Hong Kong listed equity securities, at fair value	129	123
Unlisted held-to-maturity securities, at amortised cost	472	5,000
	19,083	24,617
Less: Provision for impairment	(14,263)	(8,563)
	4,820	16,054

Particulars of the investee companies, disclosed pursuant to Section 129(2) of the 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 2004	2003
Angel Ventures II Limited ("AVII") [#]	British Virgin Islands	–	47.7
Gigabyte International Holdings Limited ("Gigabyte")	British Virgin Islands	47.7	–
Global Web (S.F.C.) Inc.	Samoa	49	49
Greenwich Investment Universal Limited	British Virgin Islands	50	50

In the opinion of the directors, the Group does not have control or exercise any significant influence on these investee companies.

[#] During the year, AVII was dissolved under member's voluntary liquidation, and all its assets were distributed to its shareholders by way of dividend and in specie. All the shareholders agreed and directed AVII to apply certain dividends and in specie assets due to subscribe for shares in Gigabyte, a new investment holding company formed for that purpose.

18. LONG TERM LOAN RECEIVABLE AND CUSTOMER DEPOSITS

As at 31 March 2004, the Group had granted a loan of YEN200 million (approximately HK\$14.58 million) to a customer (the "Borrower"). To secure the repayment of the loan by the Borrower, a party related to the Borrower has made a cash deposit of the same amount (the "Customer Deposit") to the Group and pledged it as security against the loan. The Group earns a net income of 0.5% per annum on the outstanding loan balance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

19. OTHER ASSETS

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

20. TRADE RECEIVABLES

The Group's trade receivables as at 31 March 2004 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. 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:

	2004 HK\$'000	Group 2003 HK\$'000
Repayable on demand	75,325	27,346
Within 180 days	30,951	14,596
180 days – 360 days	5	6
Over 360 days	5	–
	106,286	41,948

Included in the Group's margin clients receivables was an amount due from a director of HK\$5,988,000 (2003: HK\$2,234,000) in respect of transactions in securities as at 31 March 2004, further details of which are set out in note 30 to the financial statements.

21. SHORT TERM LOAN RECEIVABLES

Included in short term loan receivables arising from the money lending business was an amount of HK\$20,830,000 as at 31 March 2004 (2003: HK\$25,180,000), which was secured by marketable securities of a Hong Kong listed company pledged by the borrowers to the Group with a market value of HK\$122 million (2003: HK\$533 million) representing 70% of the total issued share capital of that listed company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

22. SHORT TERM INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong listed equity security, at fair value [#]	11,701	8,414	5,300	8,414
Listed equity securities, at market value:				
Hong Kong	11,259	8,716	8,902	6,725
Elsewhere	3	–	–	–
Listed warrants in Hong Kong, at market value	154	–	103	–
Overseas unlisted equity securities, at fair value	7,099	6,036	–	–
	30,216	23,166	14,305	15,139

[#] In determining the fair value of this listed equity security, the directors have applied an appropriate discount to its market price as at 31 March 2004 in view of the Group's large holding in this security relative to the trading volume of the security during the year. The market value of this listed equity security was approximately HK\$14.7 million at 31 March 2004 (2003: HK\$70 million).

The aggregate market values of the Group's short term investments in listed equity securities as at 31 March 2004 and at the date of approval of these financial statements were approximately HK\$26 million (2003: HK\$78.8 million) and HK\$21.3 million respectively.

Particulars of the investee companies, disclosed pursuant to Section 129(2) of the 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 31 March 2004 HK\$'000
		2004	2003	
Quam Equity Growth Fund Limited*	British Virgin Islands	12.3	52.6	4,409
Quam Traders Fund Limited*	British Virgin Islands	29.3	–	2,690

* In the opinion of the directors, this investment, which was incorporated as an investment fund to be managed by a subsidiary of the Group, was held for the purpose of subsequent subscription by independent investors in the near future. As this intention had been established at the time of incorporation, the Group's interest in this investment was accounted for as a short term investment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	17,343	11,062	929	3,048
Time deposits	5,590	5,939	–	–
	22,933	17,001	929	3,048

24. TRADE PAYABLES

Included in the Group's trade payables as at 31 March 2004 were client payables of HK\$150,198,000 (2003: HK\$49,992,000) 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 rules, and were repayable on demand.

The aging analysis of the trade payables of the Group as at 31 March 2004 is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Repayable on demand	52,139	15,092
Within 180 days	99,096	43,299
Over 180 days	116	261
	151,351	58,652

Included in the above margin client payables was an amount due to a director of HK\$50,000 (2003: HK\$617,000) in respect of transactions in securities as at 31 March 2004, further details of which are set out in note 30 to the financial statements.

25. INTEREST-BEARING BANK LOANS, SECURED

At 31 March 2004, the Group's bank loans of HK\$59.9 million (2003: HK\$29.9 million) were secured by marketable securities of HK\$280.9 million (2003: HK\$557.5 million) pledged to the Group by margin clients and money lending clients, the Group's cash at bank of HK\$117,000 (2003: Nil) and the Group's held-to-maturity securities of nil (2003: HK\$5 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

26. DEFERRED TAX

Group

As at 31 March 2004, a provision was made for deferred tax liabilities of HK\$36,000 (2003: HK\$36,000) calculated at the rate of 17.5% (2003: 17.5%) in respect of the temporary differences arising from accelerated depreciation allowances.

As at 31 March 2004, the principal components of the Group's unrecognised deferred tax assets/(liabilities) calculated at 17.5% (2003: 17.5%) on the cumulative temporary differences are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Accelerated depreciation allowances	(379)	(20)
Tax losses	22,910	28,206
Other temporary differences	421	386
	22,952	28,572

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.

Company

As at 31 March 2004, the Company did not have any material temporary differences.

27. SHARE CAPITAL

	Note	Company Number of shares	Amount HK\$'000
Authorised:			
Ordinary shares of HK\$0.01 each		200,000,000	2,000
Issued and fully paid:			
At 1 April 2002		3,223,527,717	32,235
Rights issue	(a)	1,934,116,629	19,341
Redemption of convertible note	(b)	163,055,555	1,631
Capital reduction	(c)	(5,214,285,903)	(52,143)
At 31 March 2003 and 31 March 2004		106,413,998	1,064

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

27. SHARE CAPITAL (Continued)

Details of movements in the share capital during the year ended 31 March 2003 were as follows:

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

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

28. SHARE OPTION SCHEME

The Company operated share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

- (a) On 4 September 1997, the Company adopted a share option scheme (the "Old Scheme") under which the Board of Directors may, on or before 3 September 2007, at their discretion, grant options to subscribe for shares in the Company to full-time employees, including directors of the Company or any of its subsidiaries to take up options to subscribe for the shares of the Company, and will remain in force for 10 years.

The maximum number of shares which can be granted under the Old Scheme may not exceed 10% of the issued share capital of the Company from time to time. At 31 March 2004, the number of shares issuable under outstanding share options granted under the Old Scheme were 596,800 (2003: 2,367,376) which represented approximately of 0.6% (2003: 2.2%) of the Company's shares in issue as at that date. The maximum number of shares in respect of which options may be granted to any employee or director may not exceed 25% of the aggregate number of shares in respect of which options are issued and issuable under the Old Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, with HK\$10 consideration being payable by the grantee upon acceptance. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Old Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; and (ii) 80% of the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer, and (iii) the nominal value of a share.

Pursuant to an agreement dated 3 January 2001 entered into between the Company and the holder of certain share options of Quam.net Limited, a subsidiary acquired by the Company in January 2001, certain share options of the Company were granted to the holder as consideration for the cancellation of the share options of Quam.net Limited held. These share options were included under the category of "Others".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

28. SHARE OPTION SCHEME (Continued)

- (b) On 30 September 2002, the Company adopted a 2002 share option scheme (the “New Scheme”) which also has an option life of 10 years. Pursuant to the annual general meeting of Shareholders on 30 September 2002, the directors were authorised to grant further share options not exceeding 10% of the shares in issue as at the date of this meeting. Upon adoption of the New Scheme, the Old Scheme was terminated with no further options granted through the Old Scheme. The options granted prior to such termination shall continue to be valid and exercisable in accordance with the Old Scheme. Eligible participants of the New Scheme include the Company’s directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and a person or entity that provides research, development or technological support or other services to the Group or any invested entity and any shareholder or any member of the Group.

The maximum number of shares which can be granted under the New Scheme may not exceed 10% of the issued share capital of the Company from time to time. The maximum number of shares which can be granted under the Old Scheme and the New Scheme may not in aggregate exceed 30% of the issued share capital of the Company from time to time. At 31 March 2004, the number of shares issuable under share options granted under the New Scheme were 10,630,758 (2003: 10,630,758), which represents approximately 10% (2003: 10%) of the Company’s shares in issue. Under the New Scheme, the maximum number of shares issuable under share options to each eligible participant within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company’s shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, with HK\$10 consideration being payable by the grantee upon acceptance. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company’s shares on the date of the offer of the share options; and (iii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the offer, and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders’ meetings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

28. SHARE OPTION SCHEME (Continued)

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

Name of category of participant	Number of share options			Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$
	At 1 April 2003	Lapsed during the year	At 31 March 2004			
Options granted under the Old Scheme						
<i>Directors</i>						
Mr. Chow Wai Lap	320,000	320,000	–	1 August 2000	1 August 2000 to 3 September 2007	3.4375
<i>Employees</i>						
In aggregate	1,064,640	467,840	596,800	5 March 2001	5 September 2001 to 8 September 2011	1.1875
<i>Others</i>						
In aggregate	982,736	982,736	–	12 January 2001	30 January 2001 to 29 January 2004	5.9375
	<u>2,367,376</u>	<u>1,770,576</u>	<u>596,800</u>			
Options granted under the New Scheme						
<i>Directors</i>						
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
	<u>10,630,758</u>	<u>–</u>	<u>10,630,758</u>			

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

** The number of share options and the exercise price of the share options have been adjusted to reflect the rights issue and consolidation of share of the Company during the year ended 31 March 2003, further details of which are set out in note 27 to the financial statements.

At the balance sheet date, the Company had 596,800 and 10,630,758 share options outstanding under the Old Scheme and the New Scheme, respectively. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 11,227,558 additional ordinary shares of the Company and additional share capital of HK\$112,276 and share premium of HK\$7,719,032 (before issue expenses).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 21 of the financial statements.

The Group's contributed surplus of HK\$204,223,000 as at 31 March 2004 represents:

- (i) an amount of HK\$2,225,000 (2003: HK\$2,225,000) representing the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Group's reorganisation prior to the listing of the Company's shares over the nominal value of the Company's shares issued in exchange thereof;
- (ii) an aggregate amount of HK\$81,998,000 (2003: HK\$81,998,000) transferred from the share capital account on capital reduction of the Company; and
- (iii) an amount of HK\$120,000,000 (2003: HK\$120,000,000) transferred from the share premium account.

A certain amount of goodwill arising on the acquisition of subsidiaries in prior years remains eliminated against consolidated reserves as explained in notes 2(d) and 15 to the financial statements.

Pursuant to a shareholders' special resolution on 3 October 2002, an amount of HK\$120 million was transferred from the share premium account to the contributed surplus account for the set-off against accumulated losses of the Company in the future.

(b) Company

	Note	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2002		478,448	81,193	932	(244,978)	315,595
Rights issue	27(a)	9,670	–	–	–	9,670
Share issues expenses		(1,677)	–	–	–	(1,677)
Redemption of convertible note payable	27(b)	7,908	–	–	–	7,908
Capital reduction	27(c)	–	52,143	–	–	52,143
Transfer from share premium account	29(a)	(120,000)	120,000	–	–	–
Net loss for the year		–	–	–	(218,481)	(218,481)
At 31 March 2003 and at 1 April 2003		374,349	253,336	932	(463,459)	165,158
Net loss for the year		–	–	–	(49,405)	(49,405)
At 31 March 2004		374,349	253,336	932	(512,864)	115,753

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

29. RESERVES (Continued)

(b) Company (Continued)

The Company's contributed surplus of HK\$253,336,000 as at 31 March 2004 represents:

- (i) an amount of HK\$51,338,000 (2003: HK\$51,338,000) representing the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same reorganisation referred to in note 29(a)(i), over the nominal value of the Company's share issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), a company may make distributions to its members out of the contributed surplus in certain circumstances;
- (ii) an aggregate amount of HK\$81,998,000 (2003: HK\$81,998,000) transferred from the share capital account on capital reduction of the Company; and
- (iii) an amount of HK\$120,000,000 (2003: HK\$120,000,000) transferred from the share premium account.

30. LOANS TO DIRECTORS

Loans to directors disclosed pursuant to Section 161B of the Companies Ordinance, are as follows:

Group

Name of directors/ Relationship with directors	Notes	At 31 March 2004 Debit/(Credit) HK\$'000	Maximum outstanding during the year HK\$'000	At 1 April 2003 Debit/(Credit) HK\$'000	Margin finance facilities approved HK\$'000	Securities held
Mr Bernard Pouliot (note 20)	(a)	5,988	7,120	2,234	7,500	Marketable securities
Mr Kenneth Lam King Hing (note 24)	(b)	(50)	2,256	(617)	5,000	N/A
Spouse of Mr. Bernard Pouliot	(a)	480	1,113	(72)	1,500	Marketable securities
Baroque Investments Limited, a company in which Mr. Bernard Pouliot had indirect interests	(b)	(6)	1,312	330	1,500	N/A

- (a) The loans granted under margin finance facilities to the director and spouse of the director are secured by the marketable securities collateral, bear interest at prime rate plus 3% (2003: prime rate plus 3%) and are repayable on demand.
- (b) As at 31 March 2004, the amounts due to the director and the related company are unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

31. ASSETS HELD AS COLLATERAL

The market value of securities pledged by clients to the Group as collateral against the trade receivables and short term loan receivables from clients at 31 March 2004 was HK\$620,577,000 (2003: HK\$727,285,000).

32. OPERATING LEASE ARRANGEMENTS

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 31 March 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	3,776	4,888	561	1,450
In the second to fifth years, inclusive	1,605	4,464	–	561
	5,381	9,352	561	2,011

33. 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 year:

	Notes	2004 HK\$'000	2003 HK\$'000
Related companies			
Consultancy fee income received	(i)	2,865	3,760
Commission income on broking	(ii)	59	53
Interest income on margin financing	(ii)	17	32
Directors			
Commission income on broking	(ii)	398	161
Interest income on margin financing	(ii)	292	96
Close family members of the directors			
Commission income on broking	(ii)	50	–
Interest income on margin financing	(ii)	19	–

Notes:

- (i) Consultancy fees of THB1,000,000 (approximately HK\$200,000) (2003: THB2,000,000 for the period from April 2002 to September 2002 and THB1,000,000 for the period from October 2002 to March 2003) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2004

34. CONTINGENT LIABILITIES

Group

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 that article and a subsidiary of the Group, Quam (H.K.) Limited. In June 2003, the author of the article and the subsidiary separately filed their defence against the claim. Subsequent to that, there was no further action taken either by the plaintiff or the subsidiary. In the opinion of the Group's legal counsel, it is unable to form any conclusion on the outcome of the claim and the ultimate liability, if any. In the opinion of the directors, based on the information available at the date of approval of these financial statements, the financial impact of the above lawsuit, if any, could not be reliably estimated.

Company

As at 31 March 2004, the Company has issued a limited corporate guarantee of HK\$72 million to a bank to secure banking facilities granted to its subsidiaries.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 18 to 52 were approved by the board of directors on 8 July 2004.