

Management Discussion and Analysis

Financial Review

The Group reported a first half year unaudited interim loss of HK\$11.2 million and a second half year loss of HK\$2.7 million and thereby reporting an annual loss of HK\$13.9 million (2004: HK\$7.7 million profit). The Group's turnover for the year was HK\$80.6 million (2004: HK\$98.5 million). The Group's turnover before net realized and unrealized short-term investments for the year was HK\$86.8 million (2004: HK\$80.8 million) representing an increase of 7.4 per cent.

Review of Operations

The Group's operations for the year showed an improvement relative to previous year despite the negative results associated with the write-down on the investment portfolio. Total revenue before these adjustments amounted to HK\$86.8 million, an increase of 7.4 per cent over the previous year. All our divisions showed increased top line revenues except for the reduced activities associated with placement services.

Despite fierce competition in the securities field from the banking industry and liquidity being shifted to the buoyant property market, we were able to grow the business and more importantly to diversify our revenue base into more recurrent income streams.

We further discuss the Group's major business divisions as follows:

Securities and futures dealing, and placement

The very competitive equity broking climate in Hong Kong combined with subdued market sentiment caused a drop in our equity trading market share. Yet, against this drop, our futures trading volume increased thereby contributing to higher commission income. Furthermore, our involvement in overseas markets, particularly Japan, with Capital Partners Securities Co., Ltd. and Thailand with Seamico Securities Public Company Limited have provided us with broader based activities.

On the trading side, at the request of our customers, we continued to further develop our online futures trading platform, and have launched more futures products covering overseas markets. We were careful on system development costs and have strived to tie these costs together with the growth of our online futures business. Further computer hardware and infrastructure costs are planned in this current year to provide a more robust and efficient delivery of our online platform to end-users.

Placement income decreased considerably to HK\$5.8 million (2004: HK\$15.4 million) because of weak market sentiment.

In September 2004, we made a small strategic investment in Capital Partners Securities Co., Ltd., a Japanese securities and corporate finance company, which has brought enhanced deal flow to the securities operation. We look forward to expand upon this and expect to leverage our institutional and ECM capabilities as new and secondary issues come on stream in the coming year.

We have also completed the migration of the futures dealing business from Quam Futures Limited into Quam Securities Company Limited. This has enable us to further optimize capital allocation.

Margin financing and money lending

The margin-lending portfolio grew by over 60 per cent year on year with a margin loan portfolio of some HK\$122.9 million as at 31 March 2005 (2004: HK\$75.3 million). The margin portfolio is financed from a combination of equity and banking facilities. Banking facilities utilized as at 31 March 2005 was about HK\$85.5 million (2004: HK\$59.9 million). Interest income was up as a result of higher volume and better treasury management and this was further attributed to our margin financing rates being constant at a level tied to prime bank lending rates, whilst our average cost of funds was lower during the financial year, owing to the lower and competitive interest rate environment. In the forthcoming year, we expect tighter margins because of regulatory changes to the margin lending guidelines.

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On the money lending side, we were able to capture additional structured lending business.

Advisory services

The corporate financial advisory and general business financial advisory services income for the year was steady at HK\$13.3 million (2004: HK\$13.1 million). As of the date of this report, we have completed our second IPO sponsorship.

We are increasingly active in merger and acquisition activities having successfully closed two cross border deals during the year. This service will be significantly expanded in the coming year with our recent membership of M&A International, a leading organization of the world's largest independently owned merger and acquisition specialists and investment banking firms with 40 members in 33 countries. The organization closed 209 deals worth over US\$10 billion last year.

Website and financial and credit information services

The Quamnet website and online business has now been in operation for six years since its launch in 1999. Since joining the Group in early 2001, revenue income has increased from about HK\$2.1 million for 2001 to over HK\$20.7 million in this current year (2004: HK\$17.4 million). Despite an average year on year revenue growth of 25 per cent for the last 3 years, we have been continually refining the revenue model and services undertaken. Subscriptions for the research and advisory products during the year were stable, albeit a pricing review was undertaken, with a relatively inelastic effect on existing subscriber income. During the year, we further reviewed our strategy on the stock quote products, and decided to outsource a particular system platform with an independent third party, on the basis of a fee sharing arrangement. We consider that subscribers will be better served from this enhanced version of the system platform, whilst we can minimize associated development and maintenance costs. We will review this strategy and decide whether this outsourcing needs to be expanded. During the year, marketing initiatives were undertaken to garner new subscription

interest. Participation in investor seminars and expositions, publication of our quarterly research highlights magazine, and cooperation with the Open University in respect to the quarterly investors courses under the LiPACE tutorial classes, all represent new initiatives for the Group.

Advertising revenue and the investor relations business enjoyed improved results during the year. The advertising and the online investor relations services has been winning more contracts in the later half of the year and we expect this trend to continue. The sales team has expanded in order to meet increased demand. Our integrated offline investors relations service has also been gaining new ground with a growing number of clients, leveraged from the Group's relationships. As this service is reliant on much personal interaction, we have placed strong emphasis on training and promoting key persons to leading roles.

The revenue in the credit services division under Quam Data Services Limited was up at HK\$3.8 million (2004: HK\$3.1 million). New business from the TrustPlus employee vetting services contributed to this increase, after its launch in October 2004. The marketing team has been active since the launch of this product, and has been successful in attracting multinational companies to these services. We have been focusing on operation and management processes for timely delivery of this service. We expect the Trustplus business to achieve one third of the revenue for the division in the coming year. Credit services continues to face fierce competition and very tight margins. Our strategy is to reduce our processing costs through the use of additional technology, thus increasing our margins.

Prospects

The order book in corporate financial advisory is healthy. We are confident of completing several IPO's which will lead to incremental revenues across the Group's range of products and services including investor relations, placements and securities dealing. We expect to see an increase of local and cross border merger and acquisition opportunities, as the regional economies expand.

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The futures' dealing business is expanding and we will roll out more overseas future products for clients to trade via the online trading platform. We expect greater activity and a greater contribution to the securities and futures business.

We are expanding our asset management services and we have now completed the successful launch of a further three new funds as of the date of this report. Management and advisory fees together with performance fees are building up our recurrent revenues.

A new representative office in Shanghai was opened in February 2005, complementing our existing office in Shenzhen. In addition, we have taken a number of independent consultants in China who originate deals and promote the Group's services.

Liquidity and Financial Resources

The Group's cash and bank balances and short term deposits as at 31 March 2005 amount to approximately HK\$26.9 million (2004: HK\$22.9 million).

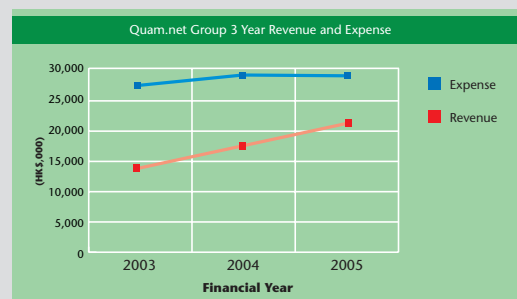
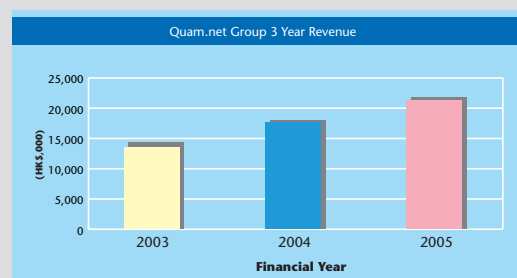
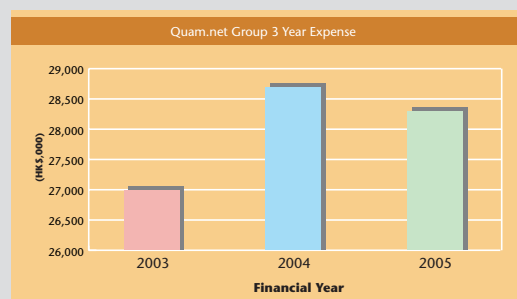
The Group generally finances its operations with internally generated cash flow and banking facilities provided by its principal bankers in Hong Kong. As at 31 March 2005, the Group had available aggregate banking facilities of approximately HK\$105 million which are secured by legal charges on certain securities owned by the Group or its margin and money lending clients. The Group had pledged HK\$1.2 million of its investment securities to secure banking facilities as at 31 March 2005. As at 31 March 2005, approximately HK\$85.5 million of these banking facilities were utilized.

The Group's gearing ratio, largely the result of the margin and money lending business, is 77.3 per cent as at 31 March 2005 (2004: 48.1 per cent).

Employment and Remuneration Policies

For the year ended 31 March 2005, the Group had a total full time staff of 136 and had part time staff of 2. There were 17 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 a mandatory provident fund scheme and medical and health insurance. Share options are granted to certain staff and directors of the Group.





Quam Investor Relations

Quam Investor Relations (QuamIR) assists listed companies in enhancing their corporate identity and market positioning among retail and institutional investors and helps investors to better understand a company's capital planning and business strategies.

華富投資者關係服務

華富投資者關係(QuamIR)協助上市公司在個人及機構投資者中加強企業地位及市場定位，使投資者及股東更了解公司的內在價值及增長前景。