

# Notes to the Financial Statements

For the year ended 31 March 2005

## 1. GENERAL INFORMATION

The registered office of Quam Limited (the "Company") is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company is incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Company are investment holding and securities trading.

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

- securities and futures dealing, placement services, 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 services
- investment holding and securities trading

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

### (a) Basis of preparation

The financial statements on pages 26 to 69 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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.

The HKICPA has issued a number of new and revised HKFRSs ("new HKFRSs") which are effective for the accounting periods beginning on or after 1 January 2005.

In the current year, as permitted under the new HKFRSs, the Group has early adopted the following new HKFRSs which replaced the relevant Statements of Standard Accounting Practice ("SSAPs") adopted in previous years:

- (i) HKFRS 3 "Business combinations" (replaces SSAP 30 "Business combinations")
- (ii) HKAS 36 "Impairment of assets" (replaces SSAP 31 "Impairment of assets")
- (iii) HKAS 38 "Intangible assets" (replaces SSAP 29 "Intangible assets")

The effects and impact of the early adoption of the above HKFRSs are set out in the relevant accounting policies in note 2(d), (f) and (m) below.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (a) Basis of preparation (Continued)

The Group has already commenced an assessment of the impact of those new HKFRSs that the Group has not early adopted in the financial statements for the year ended 31 March 2005, but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (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.

### (c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise 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

Under HKFRS 3, goodwill arising from a business combination represents the excess of the cost of acquisition over the net fair value of the Group's share of the identifiable assets and liabilities and contingent liabilities acquired as at the date of acquisition.

According to SSAP 30, goodwill arising on a business combination is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. Prior to the adoption of SSAP 30 on 1 April 2001, goodwill was eliminated against consolidated reserves in the year of acquisition. 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 the subsequent external events have occurred which have reversed the effect of that event.

Under HKFRS 3, amortisation of goodwill is prohibited and instead it requires the goodwill (other than those previously eliminated against consolidated reserves) to be tested for impairment at least annually as well as when there are indications of impairment. Therefore, the Group ceased amortisation of goodwill from 1 April 2004 and the carrying amount of the related accumulated amortisation on 1 April 2004 was eliminated against the gross amount of goodwill.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (d) Goodwill (Continued)

In accordance with the transitional provisions of HKFRS 3, any goodwill previously eliminated against consolidated reserves is not recognised in the income statement when the Group disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. The carrying amount of the goodwill previously eliminated against consolidated reserves on 1 April 2004 is not restated and is transferred to opening balance of accumulated losses in the current year.

HKFRS 3 also prohibits the reversals of impairment losses for goodwill.

On disposal of a subsidiary, the attributable amount of goodwill (other than those previously eliminated against consolidated reserves) is included in the determination of the gain or loss on disposal.

With the adoption of HKFRS 3 by the Group from 1 April 2004, the loss attributable to shareholders for the year has been decreased by HK\$1,974,000.

### (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.

### (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.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (f) Intangible assets (Continued)

#### *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.

The adoption of HKAS 38 "Intangible assets" from 1 April 2004 did not result in any substantial changes to the Group's accounting policies and the Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment was resulted from the reassessment and accordingly there is no impact on the financial statements for the year ended 31 March 2005.

### (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 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (i) Investments (Continued)

#### (ii) *Other equity securities*

All other investments in listed and unlisted equity 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 listed securities are generally their quoted market prices at the balance sheet date. An appropriate discount to the market price is made for listed securities not actively traded in a liquid market. The fair values of 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 debt securities and are stated at amortised cost less any impairment losses.

The carrying amount of held-to-maturity debt securities is reviewed at the balance sheet date in order to assess the credit risk and appropriate provision is made when the Group 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 statements 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.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 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 statement, 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.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (m) Impairment of assets

At the relevant reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. Impairment losses are recognised as expenses immediately.

Where an impairment loss is subsequently reversed, the carrying amount of an asset or cash generating unit (other than goodwill arising from business combination) is increased to the revised estimate of its recoverable amount, but such reversal cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash generating unit in prior years. A reversal of an impairment loss is recognised as income immediately.

The adoption of HKAS 36 "Impairment of assets" from 1 April 2004 did not have any significant impact on the financial statements for the year ended 31 March 2005.

### (n) Provisions

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 bases:

- (a) commissions and brokerage income, on a trade date basis;
- (b) advisory, arrangement 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;

# Notes to the Financial Statements

For the year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) Revenue recognition (Continued)

- (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.

### (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.

#### *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 Hong Kong 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.



# Notes to the Financial Statements

For the year ended 31 March 2005

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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.

## 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.

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. For the year ended 31 March 2005, the Group has reclassified certain business lines into the following business segments and the comparative figures have been reclassified accordingly,

- (i) financing services are shown as a separate business segment to reflect the growing significance of this segment;
- (ii) placement services are grouped with securities and futures dealing segment. The nature of placement services is consistent with the provision of dealing in securities, which utilises the distribution resources within the Group; and
- (iii) advisory segment pertains to advising and consulting services including corporate financial advisory and general business advisory undertaken.

Summary details of the business segments are as follows:

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

# Notes to the Financial Statements

For the year ended 31 March 2005

## 3. SEGMENT INFORMATION (Continued)

### (a) Business segments

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

2005	Securities broking and placement HK\$'000	Margin financing and money lending HK\$'000	Advisory HK\$'000	Website management HK\$'000	Investments HK\$'000	Total HK\$'000
Segment revenue	37,446	15,392	13,282	20,708	(6,195)	80,633
Segment results	3,155	4,351	348	(7,678)	(7,824)	(7,648)
Interest income and unallocated gains						275
Unallocated corporate expenses						(6,490)
Loss from operations						(13,863)
Finance costs						-
Loss before taxation						(13,863)
Taxation						-
Loss attributable to shareholders						(13,863)
Assets and liabilities						
Segment assets	207,521	129,337	4,909	8,803	31,591	382,161
Unallocated assets						14,675
Total assets						396,836
Segment liabilities	184,269	88,354	329	9,918	-	282,870
Unallocated liabilities						3,339
Total liabilities						286,209
Other segment information:						
Depreciation and amortisation:						
Segmented	2,850	-	72	3,003	-	5,925
Unallocated						10
						5,935
Provision for impairment of long term investments	-	-	-	-	-	-
Capital expenditure	2,476	-	87	525	-	3,088

# Notes to the Financial Statements

For the year ended 31 March 2005

## 3. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

2004	Securities broking and placement HK\$'000	Margin financing and money lending HK\$'000	Advisory HK\$'000	Website management HK\$'000	Investments HK\$'000	Total HK\$'000
Segment revenue	42,874	7,407	13,150	17,443	17,694	98,568
Segment results	16,661	2,422	1,497	(11,363)	7,213	16,430
Interest income and unallocated gains						439
Unallocated corporate expenses						(9,138)
Profit from operations						7,731
Finance costs						(1)
Profit before taxation						7,730
Taxation						–
Profit attributable to shareholders						7,730
Assets and liabilities						
Segment assets	216,755	112,704	7,173	10,529	26,450	373,611
Unallocated assets						1,219
Total assets						374,830
Segment liabilities	155,258	79,084	2,260	10,024	–	246,626
Unallocated liabilities						3,714
Total liabilities						250,340
Other segment information:						
Depreciation and amortisation:						
Segmented	4,923	–	91	3,246	–	8,260
Unallocated						34
						8,294
Provision for impairment of long term investments	–	–	–	–	5,700	5,700
Capital expenditure	606	–	392	918	–	1,916

# Notes to the Financial Statements

For the year ended 31 March 2005

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

## 4. TURNOVER

	2005 HK\$'000	2004 HK\$'000
Advertising and content fee income	2,706	2,530
Website management and related services fee income	14,162	11,756
Commission income on securities and futures broking	30,332	25,946
Advisory fee income	13,282	13,150
Placement and underwriting fee income	5,810	15,388
Income from margin financing and money lending operations	15,392	7,407
Fund management fee income	1,304	1,540
Credit information service fee income	3,840	3,157
	86,828	80,874
Net realised and unrealised (losses)/gains on short term investments and other investments	(6,195)	17,694
Total turnover	80,633	98,568

## 5. OTHER REVENUE AND GAINS

	2005 HK\$'000	2004 HK\$'000
Interest income from banks and others	275	439
Exchange gains, net	624	948
Long outstanding trade and other payables written back	559	2,154
Sundry income	2,195	1,841
	3,653	5,382

# Notes to the Financial Statements

For the year ended 31 March 2005

## 6. (LOSS)/PROFIT FROM OPERATIONS

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

	2005 HK\$'000	2004 HK\$'000
Depreciation	4,042	4,427
Amortisation of goodwill	–	1,974
Amortisation of other intangible assets	1,893	1,893
	5,935	8,294
Minimum lease payments under operating leases in respect of land and buildings	5,717	5,816
Auditors' remuneration:		
Provision for the year	846	635
(Over)/Underprovision in prior years	(7)	25
	839	660
Staff costs (including directors' remuneration):		
Salaries and other allowances	40,249	37,904
Retirement benefits scheme contributions	1,034	879
	41,283	38,783
Net realised gains on disposal of short term investments included in turnover	(1,064)	(3,941)
Net unrealised losses/(gains) on revaluation of short term investments included in turnover	7,259	(11,664)
Net realised gains on other investments	–	(2,089)
	6,195	(17,694)
Loss on disposal of fixed assets	297	369
Provision for bad and doubtful debts	602	541
Write-off of deposits	–	466

# Notes to the Financial Statements

For the year ended 31 March 2005

## 7. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on bank loans and other borrowings repayable within five years	3,125	2,156
Less: Interest expenses incurred for financial service operations	(3,125)	(2,155)
	–	1

## 8. DIRECTORS' REMUNERATION

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

	2005 HK\$'000	2004 HK\$'000
Fees:		
Non-executive Directors	66	60
Independent Non-executive Directors	360	302
	426	362
Other emoluments to Executive Directors:		
Salaries, allowances and benefits in kind	6,003	6,289
Retirement benefits scheme contributions	36	36
	6,039	6,325
	6,465	6,687

# Notes to the Financial Statements

For the year ended 31 March 2005

## 8. DIRECTORS' REMUNERATION (Continued)

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

	Number of directors	
	2005	2004
Nil – HK\$1,000,000	4	4
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,000,001 – HK\$2,500,000	2	2
	7	7

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

During the year, no share options (2004: Nil) were granted to the directors in respect of their services to the Group, further details of which are set out in note 27 to the financial statements.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2004: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2004: two) non-director, highest paid employees are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries, allowances and benefits in kind	2,526	4,644
Retirement benefits scheme contributions	24	24
	2,550	4,668

# Notes to the Financial Statements

For the year ended 31 March 2005

## 9. FIVE HIGHEST PAID EMPLOYEES (Continued)

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

	Number of individuals	
	2005	2004
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$3,000,001 – HK\$3,500,000	–	1
	2	2

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

	2005 HK\$'000	2004 HK\$'000
(Loss)/Profit before taxation	(13,863)	7,730
Tax at Hong Kong profits tax rate of 17.5%	(2,426)	1,353
Effect of different tax rate for a subsidiary established in the People's Republic of China (at tax rate of 15%)	61	50
Tax effect of non-deductible expenses	629	1,563
Tax effect of non-taxable revenues	(347)	(99)
Tax losses not recognised as deferred tax asset	3,358	1,506
Tax effect of previous years' unrecognised tax losses utilised this year	(1,981)	(5,268)
Other temporary differences not recognised	706	895
Actual tax expense	–	–



# Notes to the Financial Statements

For the year ended 31 March 2005

## 11. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The (loss)/profit attributable to shareholders includes a loss of HK\$7,617,000 (2004: HK\$49,405,000) which has been dealt with in the financial statements of the Company.

## 12. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on the loss attributable to shareholders of HK\$13,863,000 (2004: profit of HK\$7,730,000), and the ordinary shares in issue of 106,413,998 (2004: 106,413,998).

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 2004	3,514	18,898	22,412
Additions	1,280	1,808	3,088
Disposals	(708)	(1,194)	(1,902)
At 31 March 2005	4,086	19,512	23,598
Accumulated depreciation			
At 1 April 2004	2,444	13,981	16,425
Charge for the year	907	3,135	4,042
Disposals	(455)	(1,146)	(1,601)
At 31 March 2005	2,896	15,970	18,866
Net book value			
At 31 March 2005	1,190	3,542	4,732
At 31 March 2004	1,070	4,917	5,987

# Notes to the Financial Statements

For the year ended 31 March 2005

## 13. FIXED ASSETS (Continued)

Company

	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost			
At 1 April 2004 and 31 March 2005	291	100	391
Accumulated depreciation			
At 1 April 2004	291	35	326
Charge for the year	–	10	10
At 31 March 2005	291	45	336
Net book value			
At 31 March 2005	–	55	55
At 31 March 2004	–	65	65

# Notes to the Financial Statements

For the year ended 31 March 2005

## 14. GOODWILL

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

	Group HK\$'000
Net book amount at 31 March 2004 and 31 March 2005	14,695
At 31 March 2005	
Gross amount	
At 1 April 2004	20,641
Eliminated with accumulated amortisation and impairment losses at 1 April 2004	(5,946)
As adjusted	14,695
Accumulated amortisation and impairment losses	
At 1 April 2004	5,946
Eliminated with gross amount at 1 April 2004	(5,946)
As adjusted	–
Net book amount	14,695
At 31 March 2004	
Gross amount	20,641
Accumulated amortisation and impairment losses	5,946
Net book amount	14,695

In the previous year, goodwill was amortised over its estimated useful life of 10 years. As a result of the adoption of HKFRS 3 in the current year, no further amortisation is provided and the accumulated amortisation on 1 April 2004 was eliminated against the gross amount of goodwill.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 15. OTHER INTANGIBLE ASSETS

### Group

	Trading rights HK\$'000	Database HK\$'000	Total HK\$'000
Opening net book amount at 1 April 2004	10,288	1,045	11,333
Amortisation charge	1,769	124	1,893
Closing net book amount, at 31 March 2005	8,519	921	9,440
At 31 March 2005			
Cost	14,550	1,242	15,792
Accumulated amortisation	6,031	321	6,352
Net book amount	8,519	921	9,440
At 31 March 2004			
Cost	14,550	1,242	15,792
Accumulated amortisation	4,262	197	4,459
Net book amount	10,288	1,045	11,333

# Notes to the Financial Statements

For the year ended 31 March 2005

## 16. INTERESTS IN SUBSIDIARIES

	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	159,929	159,929
Amounts due from subsidiaries	235,004	245,333
Amounts due to subsidiaries	(16,901)	(16,215)
	378,032	389,047
Less: Provision for impairment	(286,568)	(286,568)
	91,464	102,479
Less: Portion classified under current assets	–	(5,000)
	91,464	97,479

Except for an amount due from a subsidiary of HK\$5,000,000 as at 31 March 2004 which bore interest at the range between 2.1% to 2.2% per annum and was repayable within one year and included in the current assets, all the other balances with subsidiaries as at 31 March 2005 and 2004 were 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 2005.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 16. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries as at 31 March 2005 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
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 broking
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

# Notes to the Financial Statements

For the year ended 31 March 2005

## 16. INTERESTS IN 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 (China) Limited	Hong Kong	HK\$100	–	100	Investment holding
Quam Data Services Limited	Hong Kong	HK\$1,000	–	100	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 2005

## 17. LONG TERM INVESTMENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Club debenture	653	653	–	–
Investment securities				
Unlisted equity securities, at cost	19,791	17,829	1,962	–
Other equity securities				
Hong Kong listed equity securities, at fair value	114	129	–	–
Unlisted held-to-maturity debt securities, at amortised cost	472	472	–	–
	21,030	19,083	1,962	–
Less: Provision for impairment	(14,263)	(14,263)	–	–
	6,767	4,820	1,962	–
Hong Kong listed equity securities, at market value	114	129	–	–



# Notes to the Financial Statements

For the year ended 31 March 2005

## 17. LONG TERM INVESTMENTS (Continued)

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 31 March 2005 HK\$'000
		2005	2004	
Gigabyte International Holdings Limited	British Virgin Islands	47.7	47.7	3,987
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.

## 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 had made a cash deposit of the same amount (the "Customer Deposit") to the Group and pledged it as security against the loan.

In addition, during the year, a similar arrangement was also made to another customer under which the Group has granted a loan of US\$4.5 million (approximately HK\$35.1 million) to that customer which was secured by a deposit placed by another party connected to that customer of the same amount.

The Group earned a net interest margin of 0.5% per annum on the outstanding loan balances. The above facilities were all terminated in March 2005 and the loan receivables and the corresponding customer deposits were agreed by all the parties involved to offset with each other.

Total interest and arrangement fee income earned by the Group amounted to HK\$947,000 (2004: HK\$139,000) and total interest expenses incurred for the year ended 31 March 2005 amounted to HK\$652,000 (2004: HK\$11,000).

# Notes to the Financial Statements

For the year ended 31 March 2005

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

The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise the credit risk. Overdue balances are reviewed regularly by senior management.

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

	Group	
	2005 HK\$'000	2004 HK\$'000
Repayable on demand		
– margin clients receivable	122,950	75,325
Within 180 days	33,971	30,951
180 days – 360 days	1,924	5
Over 360 days	332	5
	159,177	106,286

Included in the Group's margin clients receivable was an amount due from a director of HK\$5,451,000 (2004: HK\$5,988,000) in respect of transactions in securities as at 31 March 2005, further details of which are set out in note 29 to the financial statements.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 21. SHORT TERM INVESTMENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong listed equity security, at fair value <sup>#</sup>	4,612	11,701	1,912	5,300
Listed equity securities, at market value:				
Hong Kong	17,556	11,259	11,956	8,902
Elsewhere	9	3	–	–
Listed warrants in Hong Kong, at market value	79	154	52	103
Overseas unlisted equity securities, at fair value	2,568	7,099	–	–
	24,824	30,216	13,920	14,305

<sup>#</sup> 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 2005 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 of the Group and the Company at 31 March 2005 was approximately HK\$7.7 million (2004: HK\$14.7 million) and HK\$3.2 million (2004: HK\$6.6 million) respectively.

The aggregate market values of the Group's short term investments in listed equity securities as at 31 March 2005 and at the date of approval of these financial statements were approximately HK\$25.3 million (2004: HK\$26.0 million) and HK\$22.7 million respectively.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 21. SHORT TERM INVESTMENTS (Continued)

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 31 March 2005 HK\$'000
		2005	2004	
Quam Traders Fund Limited*	British Virgin Islands	30.1	29.3	2,568

\* In the opinion of the directors, this investment, which was incorporated as an investment fund managed by a subsidiary of the Group, was held for the purpose of subsequent subscription by independent investors in the 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.

## 22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	21,316	17,343	1,349	929
Time deposits	5,602	5,590	–	–
	26,918	22,933	1,349	929

# Notes to the Financial Statements

For the year ended 31 March 2005

## 23. TRADE PAYABLES

Included in the Group's trade payables as at 31 March 2005 were client payables of HK\$167,070,000 (2004: HK\$150,198,000) 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 31 March 2005 is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
Repayable on demand:		
Securities transactions		
– margin clients payable	54,299	52,139
– cash clients payable	93,487	84,549
Futures and options contracts		
– clients payable	10,236	14,027
	158,022	150,715
Within 180 days	20,875	520
Over 180 days	57	116
	178,954	151,351

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

Included in above, there was an amount due to a director of HK\$29,000 (2004: HK\$50,000) in respect of transactions in securities as at 31 March 2005, further details of which are set out in note 29 to the financial statements.

## 24. INTEREST-BEARING BANK LOANS, SECURED

At 31 March 2005, the Group's bank loans of HK\$85.5 million (2004: HK\$59.9 million) were secured by marketable securities of HK\$283.2 million (2004: HK\$280.9 million) pledged to the Group by margin clients (2004: margin clients and money lending clients) and certain of the Group's listed equity securities included under short term investments and cash at bank amounting to HK\$1.2 million (2004: Nil) and HK\$76,000 (2004: HK\$117,000) respectively.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 25. DEFERRED TAX

### Group

As at 31 March 2005, a provision was made for deferred tax liabilities of HK\$36,000 (2004: HK\$36,000) calculated at the rate of 17.5% (2004: 17.5%) in respect of the temporary differences arising from accelerated depreciation allowances.

As at 31 March 2005, the principal components of the Group's unrecognised deferred tax assets/(liabilities) calculated at 17.5% (2004: 17.5%) on the cumulative temporary differences are analysed as follows:

	2005 HK\$'000	2004 HK\$'000
Accelerated depreciation allowances	(95)	(379)
Tax losses	23,853	22,910
Other temporary differences	421	421
	24,179	22,952

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 2005, the Company did not have any material temporary differences.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 26. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31 March 2004 and 31 March 2005	10,000,000,000	100,000
Issued and fully paid:		
At 31 March 2004 and 31 March 2005	106,413,998	1,064

The comparative figures in respect of authorised capital has been restated from HK\$2,000,000 comprising 200,000,000 ordinary shares of HK\$0.01 each to HK\$100,000,000 comprising 10,000,000,000 ordinary shares of HK\$0.01 each. This mis-reporting in the annual reports for the year ended 31 March 2003, 2004, the interim report for the six months ended 30 September 2003 and the circulars to shareholders dated 9 September 2002 and 22 September 2004 was due to the assumption that under the capital reorganisation involving a consolidation of 50 paid up shares to 1 paid up share, which was effected on 4 October 2002 pursuant to a special resolution passed on 3 October 2002, had extended to the authorised share capital of the Company. The correction of this error has no effect on the results or financial positions of the Group and the Company for the previous and current years.

## 27. SHARE OPTION SCHEMES

The Company operates two 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 2005, the number of shares issuable under outstanding share options granted under the Old Scheme were 530,560 (2004: 596,800) which represented approximately of 0.5% (2004: 0.6%) 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.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 27. SHARE OPTION SCHEMES (Continued)

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.

- (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 2005, the number of shares issuable under share options granted under the New Scheme were 10,630,758 (2004: 10,630,758), which represents approximately 10% (2004: 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.



# Notes to the Financial Statements

For the year ended 31 March 2005

## 27. SHARE OPTION SCHEMES (Continued)

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) 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.

No options were granted or exercised during the year. 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 2004	Lapsed during the year	Cancelled during the year	At 31 March 2005			
Options granted under the Old Scheme							
<i>Employees</i>							
In aggregate	596,800	28,480	37,760	530,560	5 March 2001	5 September 2001 to 8 September 2011	1.1875
	596,800	28,480	37,760	530,560			
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
	10,630,758	–	–	10,630,758			

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

# Notes to the Financial Statements

For the year ended 31 March 2005

## 27. SHARE OPTION SCHEMES (Continued)

At the balance sheet date, the Company had 530,560 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 11,161,318 additional ordinary shares of the Company and additional share capital of HK\$111,613 and share premium of HK\$7,641,035 (before issue expenses).

## 28. 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 29 of the financial statements.

The Group's contributed surplus of HK\$65,708,000 as at 31 March 2005 comprises:

- (i) an amount of 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 transferred from the share capital account on capital reduction of the Company;
- (iii) an amount of HK\$120,000,000 and HK\$374,349,000 transferred from the share premium account pursuant to shareholders' special resolutions on 3 October 2002 and 13 September 2004 respectively for the set-off against accumulated losses of the Company in the future; and
- (iv) an amount of HK\$512,864,000 transferred to accumulated losses on 13 September 2004 to eliminate the entire accumulated losses of the Company as at 31 March 2004.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 28. RESERVES (Continued)

### (b) Company

	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
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 and at 1 April 2004	374,349	253,336	932	(512,864)	115,753
Transfer of share premium to contributed surplus*	(374,349)	374,349	–	–	–
Transfer of contributed surplus to accumulated losses*	–	(512,864)	–	512,864	–
Net loss for the year	–	–	–	(7,617)	(7,617)
At 31 March 2005	–	114,821	932	(7,617)	108,136

The Company's contributed surplus of HK\$114,821,000 as at 31 March 2005 comprises:

- (i) an amount of 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 28(a)(i), over the nominal value of the Company's shares issued in exchange thereof. 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 transferred from the share capital account on capital reduction of the Company;
- (iii) an amount of HK\$120,000,000 and HK\$374,349,000 transferred from the share premium account pursuant to shareholders' special resolutions on 3 October 2002 and 13 September 2004 respectively for the set-off against accumulated losses of the Company in the future; and
- (iv) an amount of HK\$512,864,000 transferred to accumulated losses on 13 September 2004 to eliminate the entire accumulated losses of the Company as at 31 March 2004.

\* Details of the transfers are set out in the consolidated statement of changes in equity on page 29 of the financial statements.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 29. LOANS TO DIRECTORS

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

### Group

Name of directors/ Relationship with directors	Note	At 31 March 2005 Debit/(Credit) HK\$'000	Maximum outstanding during the year HK\$'000	At 1 April 2004 Debit/(Credit) HK\$'000	Margin finance facilities approved HK\$'000	Securities held
Mr. Bernard Pouliot (note 20)	(a)	5,451	7,037	5,988	7,500	Marketable securities
Mr. Kenneth Lam King Hing (note 24)	(b)	(29)	4,357	(50)	5,000	N/A
Spouse of Mr. Bernard Pouliot	(a)	208	806	480	1,500	Marketable securities
Baroque Investments Limited, a company in which Mr. Bernard Pouliot had indirect interests	(a)	2,959	3,101	(6)	3,000	Marketable securities

Notes:

- (a) The loans granted under margin finance facilities to the director, spouse of the director and related company are secured by the marketable securities collateral, bear interest at prime rate plus 3% (2004: prime rate plus 3%) and are repayable on demand.
- (b) As at 31 March 2005, the amounts due to the director (2004: director and related company) are unsecured, interest-free and repayable on demand.

## 30. ASSETS HELD AS COLLATERAL

The market value of securities pledged by clients to the Group as collateral against trade receivables (2004: trade receivables and short term loan receivables from clients) at 31 March 2005 was HK\$763,415,000 (2004: HK\$620,577,000).

# Notes to the Financial Statements

For the year ended 31 March 2005

## 31. 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 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Within one year	5,853	3,776	1,044	561
In the second to fifth years, inclusive	5,083	1,605	561	–
	10,936	5,381	1,605	561

# Notes to the Financial Statements

For the year ended 31 March 2005

## 32. 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	2005 HK\$'000	2004 HK\$'000
<b>Related companies</b>			
Consultancy fee income received	(i)	2,874	2,865
Commission income on broking	(ii)	12	59
Interest income on margin financing	(ii)	67	17
Interest expense on margin financing	(iii)	(287)	–
<b>Directors</b>			
Commission income on broking	(ii)	238	398
Interest income on margin financing	(ii)	353	292
<b>Close family members of the directors</b>			
Commission income on broking	(ii)	35	50
Interest income on margin financing	(ii)	23	19

Notes:

- (i) Consultancy fees of THB1,000,000 (approximately HK\$200,000) (2004: THB1,000,000) per month were received from a related company for the provision of advisory services and were charged based on mutually agreed terms.
- (ii) The commission and interest charged to the above parties were in accordance with the terms similar to those offered to unrelated customers.
- (iii) The interest paid to the related party was in accordance with the terms similar to those offered by unrelated brokers.

# Notes to the Financial Statements

For the year ended 31 March 2005

## 33. CONTINGENT LIABILITIES

### Group

#### (a) *Litigation*

On 23 April 2003, a lawsuit was brought by an independent third party alleging that the content of an article published on the Group's website on 26 March 2003 was defamatory. The third party is claiming unspecified damages from the author of the article and a subsidiary of the Group, Quam (H.K.) Limited. In June 2003, the author of the article and the subsidiary separately filed their defence against the claim and up to 31 March 2005, a period of over 21 months has lapsed and there has been no further action taken either by the plaintiff or the subsidiary. In the opinion of the directors, based on the information available at the date of approval of these financial statements, the financial impact of the above lawsuit, if any, cannot be reliably estimated.

#### (b) *Loan guarantee*

On 23 February 2005, a subsidiary of the Company entered into a loan guarantee agreement with a lender, in relation to a loan facility of US\$800,000 (approximately HK\$6.2 million) granted by the lender to a borrower for a period of 12 months commencing from 23 February 2005. The loan by the lender is secured by a floating charge over certain receivables of the borrower in relation to the leasing of furniture to its customers amounting to HK\$9.8 million as at 23 February 2005. Under the guarantee, the subsidiary undertakes to indemnify the lender against all losses, liabilities, damages, costs and expenses whatsoever arising out of any failure by the borrower to make due and punctual payment of the loan and in the due and punctual performance and observances of all other obligations under the agreement.

### Company

As at 31 March 2005, the Company has issued a limited corporate guarantee of HK\$70 million to banks to secure banking facilities granted to one of its subsidiaries.

## 34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 26 to 69 were approved by the board of directors on 8 July 2005.