

# Chairman's Statement

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Dear shareholders,

On behalf of the board of directors of Quam Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 March 2006.

The financial year ending 2006 was a rewarding one for the Group and augurs well for the future. We can finally feel the synergies and cross referrals between the different Group entities leveraging each other. Our revenue excluding fair value gains on short term investments was HK\$104.4 million (2005: HK\$86.8 million, 2004: HK\$80.8 million, 2003: HK\$43.3 million). This is 241% of the 2003 year revenue. The year on year growth in revenues is predominantly the result of a much higher trading turnover in our securities and futures business. Our online futures dealing generates over 90% of our futures trading. Whilst the other divisions had growth in their top line, none were as significant as the securities and futures business including margin financing and placements, which represents over 60% of the Group's revenue.

The Group has experienced a number of positive developments, including:

- The reorganization of our asset management services. We now have a fully structured asset management organization under the leadership of Mr. Chris Choy as Managing Director. The total assets under management and advisory total over HK\$250 million (2005: HK\$180 million).
- The separation of operational units at Quamnet into a multi-media group and a product/subscription group. In addition, Quam Money magazine was launched on a monthly basis in July 2005 and has a distribution totaling over 10,000 issues each month.
- The expansion of Quam Capital Limited into the business of mergers and acquisitions, assisted greatly by our membership of M&A International. The order book for the financial year 2007 is looking very healthy and should be a key earner for the Group.
- Our expansion into institutional sales for our securities trading group at Quam Securities with the establishment of a dedicated team.
- Establishment of a subsidiary and a representative office in Shanghai to further enhance our representation in China. We also are making application for a representative office for Quam Securities Company Limited in Shanghai and we envisage this will give us further China representation as Hong Kong and China business liberates further in the near future.
- After the year end, Quam Data Services Limited entered into an agreement with Hill & Associates with a view to create an Asiawide pre-employment screening business under the name and brand of "Verify". The Group will hold 25% of the expanded business venture that will operate in India, Malaysia, Hong Kong and shall look to expand to Japan, Philippines and Taiwan.
- Our participation in an investee company seeking to establish in the U.A.E., a Dubai securities trading operation which is seeking licenses on the new Dubai International Financial Exchange and the Dubai Financial Market.

However, we are faced with many challenges ahead of us including:

- The need to invest further in both hardware and software technology, particularly our IT security system and back up operations to enhance and minimize downtime.
- Further investment in developing controls and corporate governance while assuming higher costs for audit fees and compliance personnel related to these activities.

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- Higher costs of operation. The Group faces increased costs including office premises and staffing costs in particular, following a number of years of nil or low salary increment adjustment.
- Turnover of personnel. Despite our drive to offer competitive salaries, the financial industry has been under enormous pressure in terms of salaries/bonuses. The Group, being a mid-size industry player, is under competitive pressure from the bigger financial institutions to retain loyalty amongst its staff. In order to meet this challenge and keep fixed costs acceptable, we have instituted a share option program within the Group to over 40 key staff with vesting and exercise over a 3-year period. We feel confident that this will help retain our staff and assist us in recruiting high calibre employees.

In the light of the potential dilution effect to existing shareholders as a result of this share option grant, we will put forward to the shareholders at the forthcoming annual general meeting a proposal to offer them a dividend in specie representing a 25% bonus share issue of one share for every four held.

Looking ahead we expect this year to achieve the following:

- Increase assets under management to at least twice the current amount
- Expand our marketing presence in China and develop our presence in new cities
- Establish a strategic alliance for our futures dealing business
- Reassess our Quamnet on-line strategy in China, which up until now has been very disappointing
- Expand our telesales team at Quamnet as well as our services in the field of investor relations. We now service over 65 companies online and we look to service 100 companies by the end of 2007 financial year.
- Leverage further our network of alliances including Capital Partners Securities in Tokyo, Seamico Securities PLC in Bangkok and the expected approval of a new brokerage operation on the Dubai Financial Market and the Dubai International Financial Exchange in the U.A.E. Quam Capital Limited, our corporate finance arm, is in a position to take advantage of these alliances while leveraging its association with M&A International.

This is a heavy agenda. However, the roles are clearly defined and the team is confident and ready to meet the opportunities offered in Hong Kong and China. Quam intends to fully participate in these developments.

Finally, in order to improve the liquidity of our shares, we will propose a bonus issue to the shareholders on the basis of one bonus share for every four shares of the Company and split the shares into two shares. The result of this corporate exercise together with the dividend in specie will expand the current issued shares from 117 million shares to 292.5 million shares.

I would like to take this opportunity to thank all our staff, suppliers, bankers and shareholders who have remained confident and supportive of the Quam Group.

**Bernard Pouliot**  
*Chairman*

Hong Kong, 21 July 2006



Vincent Lam  
林少陽



Chris Choy  
蔡光華



Victor Tsang



## Quam Asset Management

Quam Asset Management plays an active role in fund management and investment advisory services. Our investment team focuses on value investing and invests in diversified portfolio of companies with significant quality assets and management. Quam Asset Management currently manages and advises private funds including the Quam Value Segregated Portfolio, the Quam Greater China Segregated Portfolio and the Quam Opportunity Segregated Portfolio and a number of individual clients.

## 華富嘉洛資產管理

華富嘉洛資產管理提供積極的基金管理及投資諮詢服務，着重價值投資，專注於資產質素優越、管理層誠信可靠的公司。現時旗下現管理的私人基金包括華富增值獨立投資組合、華富大中華獨立投資組合及 Quam Opportunity Segregated Portfolio，並擁有大量個別客戶。