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# QUAM LIMITED

# 華富國際控股有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 952)**

## ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The board of directors (the "Board" or "Directors") of Quam Limited (the "Company") presents the unaudited interim results of the Company and its subsidiaries (together, the "Group") for the six months ended 30 September 2016, together with the comparative figures for the previous financial period, as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 September 2016*

| | *Notes* | **Six months ended 30 September 2016** ***HK$'000*** **(Unaudited)** | Six months ended 30 September 2015 *HK$'000* (Unaudited) |
|---|---|---|---|
| **Revenue** | 4 | **175,056** | 320,739 |
| Fair value gain/(loss) on financial assets measured at fair value through profit or loss | | **5,059** | (1,687) |
| Other operating income and gains | 5 | **4,976** | 7,217 |
| Cost of services provided | | **(85,776)** | (139,535) |
| Staff costs | 6 | **(51,702)** | (84,320) |
| Depreciation and amortisation expenses | 6 | **(4,057)** | (3,455) |
| Other operating expenses | | **(37,059)** | (40,399) |
| Finance costs | | **(7,876)** | (12,400) |
| Share of results of an associate | | **(797)** | — |
| Share of results of joint ventures | | **886** | (551) |
| **(Loss)/Profit before income tax** | 6 | **(1,290)** | 45,609 |
| Income tax credit/(expense) | 7 | **267** | (4,837) |
| **(Loss)/Profit for the period, attributable to owners of the Company** | | **(1,023)** | 40,772 |

* *For identification purpose only*

| | Notes | Six months ended 30 September 2016 *HK$'000* (Unaudited) | Six months ended 30 September 2015 *HK$'000* (Unaudited) |
|---|---|---|---|
| **Other comprehensive income, including reclassification adjustments** | | | |
| Item that may be reclassified subsequently to profit or loss | | | |
| — Exchange (loss)/gain on translation of financial statements of foreign operations | | **(1,299)** | 2 |
| Items that will not be reclassified subsequently to profit or loss | | | |
| — Surplus on revaluation of property, plant and equipment upon transfer to investment properties | | **5,255** | — |
| — Changes in fair value of financial assets measured at fair value through other comprehensive income | | **1,566** | (10,740) |
| **Other comprehensive income for the period, including reclassification adjustments and net of tax** | | **5,522** | (10,738) |
| **Total comprehensive income for the period, attributable to owners of the Company** | | **4,499** | 30,034 |
| | | ***HK cent(s)*** | *HK cent(s)* |
| **(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company for the period** | 9 | | |
| — Basic | | **(0.068)** | 2.800 |
| — Diluted | | **(0.068)** | 2.705 |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*As at 30 September 2016*

| | Notes | 30 September 2016 HK$'000 (Unaudited) | 31 March 2016 HK$'000 (Audited) |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **15,514** | 17,245 |
| Investment properties | | **8,000** | — |
| Goodwill | | **14,695** | 14,695 |
| Development costs | | **5,474** | 3,845 |
| Other intangible assets | | **585** | 212 |
| Financial assets measured at fair value through other comprehensive income | | **16,946** | 15,380 |
| Other financial assets measured at amortised cost | | **—** | 16,145 |
| Interest in an associate | 10 | **38,797** | — |
| Interests in joint ventures | | **41,784** | 42,200 |
| Other assets | | **17,311** | 7,684 |
| Deposits for intangible assets and property, plant and equipment | | **1,605** | 1,820 |
| Deferred tax assets | | **1,862** | 445 |
| | | **162,573** | 119,671 |
| **Current assets** | | | |
| Trade receivables | 11 | **1,578,878** | 1,622,201 |
| Loan receivables | | **—** | — |
| Prepayments, deposits and other receivables | | **51,851** | 18,209 |
| Financial assets measured at fair value through profit or loss | | **6,612** | 64,831 |
| Tax recoverable | | **648** | 714 |
| Trust time deposits held on behalf of clients | | **574,676** | 513,740 |
| Trust bank balances held on behalf of clients | | **864,143** | 824,408 |
| Cash and cash equivalents | | **93,125** | 83,382 |
| | | **3,169,933** | 3,127,485 |
| **Current liabilities** | | | |
| Trade payables | 12 | **2,341,396** | 2,171,798 |
| Borrowings | | **331,634** | 263,948 |
| Accruals and other payables | | **44,392** | 93,825 |
| Tax payables | | **8,964** | 7,880 |
| Provision | | **1,000** | 3,100 |
| | | **2,727,386** | 2,540,551 |
| **Net current assets** | | **442,547** | 586,934 |
| **Total assets less current liabilities** | | **605,120** | 706,605 |

| | Notes | 30 September 2016 HK$'000 (Unaudited) | 31 March 2016 HK$'000 (Audited) |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Borrowings | | — | 98,564 |
| | | — | 98,564 |
| **Net assets** | | **605,120** | 608,041 |
| **EQUITY** | | | |
| **Equity attributable to Company's owners** | | | |
| Share capital | | **5,038** | 5,038 |
| Reserves | | **600,082** | 603,003 |
| **Total equity** | | **605,120** | 608,041 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

*For the six months ended 30 September 2016*

## 1. BASIS OF PREPARATION

The unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and complies with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and with applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation that have been used in the preparation of these condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group's annual financial statements for the year ended 31 March 2016, except for the adoption of new and amended Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations.

During the interim period, the Group has adopted all the new and amended HKFRSs which are first effective for the reporting period. The application of these new and amended HKFRSs has had no impact on the disclosures or on the amounts recognised in the Group's condensed consolidated interim financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 3. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major service lines.

The Group has identified the following reportable segments:

(a) the brokerage segment engages in discretionary and non-discretionary dealing services for securities, futures and options, securities placing and underwriting services, margin financing and money lending services, insurance broking and wealth management services;

(b) the advisory segment engages in corporate finance advisory and general advisory services;

(c) the asset management segment engages in fund management, discretionary portfolio management and portfolio management advisory services;

(d) the website management segment engages in investor relation, online advertising and financial information services; and

(e) the investments segment engages in investment holding and securities trading.

Each of these operating segments is managed separately as each of the service lines requires different resources as well as marketing approaches. During the six months ended 30 September 2016, there have been no changes from prior periods in the measurement methods used to determine operating segments and reported segment profit or loss. No operating segments identified have been aggregated in arriving at the reportable segments of the Group.

| | **Brokerage** | **Advisory** | **Asset management** | **Website management** | **Investments** | **Total** |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **Six months ended 30 September 2016 (Unaudited)** | | | | | | |
| **Revenue** | | | | | | |
| From external customers | **142,846** | **18,437** | **6,864** | **6,909** | **—** | **175,056** |
| From other segments | **—** | **130** | **322** | **3,178** | **—** | **3,630** |
| **Reportable segment revenue** | **142,846** | **18,567** | **7,186** | **10,087** | **—** | **178,686** |
| **Reportable segment result** | **(3,322)** | **1,807** | **225** | **137** | **2,133** | **980** |
| **30 September 2016 (Unaudited)** | | | | | | |
| **Reportable segment assets** | **3,169,650** | **20,123** | **9,845** | **6,449** | **62,355** | **3,268,422** |
| **Reportable segment liabilities** | **2,698,234** | **1,853** | **5,829** | **7,781** | **—** | **2,713,697** |

| | Brokerage | Advisory | Asset management | Website management | Investments | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Six months ended 30 September 2015 (Unaudited)** | | | | | | |
| **Revenue** | | | | | | |
| From external customers | 236,067 | 25,499 | 50,718 | 8,455 | — | 320,739 |
| From other segments | — | 1,500 | — | 3,068 | — | 4,568 |
| **Reportable segment revenue** | 236,067 | 26,999 | 50,718 | 11,523 | — | 325,307 |
| **Reportable segment result** | 39,538 | (1,323) | 11,174 | 121 | (763) | 48,747 |
| **31 March 2016 (Audited)** | | | | | | |
| **Reportable segment assets** | 3,056,552 | 17,356 | 10,953 | 7,708 | 90,688 | 3,183,257 |
| **Reportable segment liabilities** | 2,574,282 | 4,123 | 6,276 | 9,224 | 30,045 | 2,623,950 |

The total of the Group's reportable segment result is reconciled to the Group's (loss)/profit before income tax as follows:

| | **Six months ended 30 September 2016** *HK$'000* **(Unaudited)** | Six months ended 30 September 2015 *HK$'000* (Unaudited) |
|---|---|---|
| Reportable segment result | **980** | 48,747 |
| Other operating income and gains | **350** | 435 |
| Share of results of joint ventures | **886** | (551) |
| Unallocated corporate expenses* | **(3,506)** | (3,022) |
| (Loss)/Profit before income tax | **(1,290)** | 45,609 |

* included mainly rental expenses, professional fees and staff salary

## 4. REVENUE

| | **Six months ended 30 September 2016** *HK$'000* **(Unaudited)** | Six months ended 30 September 2015 *HK$'000* (Unaudited) |
|---|---|---|
| Advertising, banner and events fee income | **983** | 660 |
| Advisory fee income | **18,437** | 25,499 |
| Asset management and performance fee income | **6,864** | 50,718 |
| Commission and brokerage income on securities, futures and options dealing | **102,622** | 183,859 |
| Financial information service fee income | **5,362** | 7,215 |
| Interest income from margin financing and money lending services | **25,251** | 33,065 |
| Investor relations service fee income | **564** | 580 |
| Placing and underwriting fee income | **14,301** | 18,385 |
| Wealth management service fee income | **672** | 758 |
| | **175,056** | 320,739 |

## 5. OTHER OPERATING INCOME AND GAINS

| | **Six months ended 30 September 2016** *HK$'000* **(Unaudited)** | Six months ended 30 September 2015 *HK$'000* (Unaudited) |
|---|---|---|
| Changes in net assets attributable to other holders of a consolidated investment fund | **(2,051)** | — |
| Dividend income from | | |
| — financial assets measured at fair value through other comprehensive income held at the end of the reporting period | **—** | 924 |
| — financial assets measured at fair value through profit or loss | **1,200** | — |
| Exchange gains, net | **611** | 2,546 |
| Interest income from banks and other financial assets measured at amortised cost | **3,235** | 2,811 |
| Write-back of other payables | **1,286** | — |
| Sundry income | **695** | 936 |
| | **4,976** | 7,217 |

## 6. (LOSS)/PROFIT BEFORE INCOME TAX

| | **Six months ended 30 September 2016** *HK$'000* **(Unaudited)** | Six months ended 30 September 2015 *HK$'000* (Unaudited) |
|---|---|---|
| (Loss)/Profit before income tax is arrived at after charging/(crediting): | | |
| Amortisation of development costs and other intangible assets | **774** | 644 |
| Depreciation of property, plant and equipment | **3,283** | 2,811 |
| | **4,057** | 3,455 |
| Impairment of trade receivables | **6,934** | 1,116 |
| Net losses on disposals of property, plant and equipment | **101** | — |
| Staff costs (including directors' emoluments): | | |
| — Fees, salaries, allowances, bonuses and benefits in kind | **50,477** | 79,877 |
| — Share awards expense | **137** | 449 |
| — Retirement benefits scheme contributions | **1,610** | 1,641 |
| — Other staff benefits | **1,428** | 2,353 |
| Total staff costs | **53,652** | 84,320 |
| Less: Amount capitalised into development costs | **(1,950)** | — |
| Amount recognised in profit or loss | **51,702** | 84,320 |

## 7. INCOME TAX (CREDIT)/EXPENSE

| | **Six months ended 30 September 2016** *HK$'000* **(Unaudited)** | Six months ended 30 September 2015 *HK$'000* (Unaudited) |
|---|---|---|
| Current tax — Hong Kong profits tax | | |
| — Current year | **132** | 4,837 |
| — Under provision in prior year | **1,018** | — |
| | **1,150** | 4,837 |
| Deferred tax | | |
| — Origination and reversal of temporary differences | **(1,076)** | — |
| — Deductible temporary differences previously not recognised | **(341)** | — |
| | **(1,417)** | — |
| Total income tax (credit)/expense | **(267)** | 4,837 |

The Hong Kong Inland Revenue Department ("IRD") issued a notice to the Group to commence a group tax audit and in January 2013, management together with its tax advisors had a meeting with IRD to provide an overview of the Group's affairs and understand the possible scope of enquiries. On 14 March 2013, the IRD issued a specific enquiry letter to the Group pertaining to several operating entities and their scope of review which includes mainly the affairs of the asset management operation and the operations of website management.

As the IRD's enquiries related to earlier tax periods, the IRD has issued protective assessments on certain group entities for the years of assessment 2005/06 to 2009/10 and the Group has lodged objections to these assessments. Holdovers of the tax claimed for these assessments were agreed by the IRD and the Group purchased tax reserve certificates of HK$3,250,000 in prior years and HK$786,000 during the period.

For the six months ended 30 September 2015, the IRD's enquiries were still at the fact-finding stage, which were subject to further submission of information by the Group and IRD had not yet expressed any formal opinion on the potential tax liability, if any. Management also believed that the profits tax computations relating to the prior years were properly calculated and the tax liability was properly accrued and recorded. Accordingly, management concluded that no additional tax provision and/or tax charge was required for the six months ended 30 September 2015.

Further to the discussion with its tax advisors and having taken their advice, management has revised the estimated assessable profits of those entities and, based on such estimates, the Group has recognised a provision for additional tax of approximately HK$7,600,000 as at 31 March 2016 . The Group has also submitted to the IRD a settlement proposal on an entirely without prejudice basis in May 2016 ("First Proposal") covering the years of assessment from 2005/06 to 2014/15 in order to expedite the settlement of the tax position in respect of prior years' assessments.

Subsequent to the submission of the First Proposal in May 2016, a revised settlement proposal was submitted to the IRD in September 2016 on a without prejudice basis after discussions with the assessors of the IRD. In October 2016, the IRD accepted the revised settlement proposal and issued notices of revised additional assessments, interest demand notes and statements of losses covering the years of assessment from 2005/06 to 2014/15 for those group entities. Based on these notes and notices, an under-provision of approximately HK$800,000 was recognised for the six months ended 30 September 2016.

As a related matter, the IRD is reviewing the salaries tax positions of the executive directors and some senior management of the Group and has indicated that it may impose a penalty on the Group for any incorrect filing of Employer's Returns after their review. Since the salaries tax positions are under review by the IRD, the total penalty exposure for the Group on any incorrect filing of the Employer's Returns cannot be ascertained at this stage.

## 8. DIVIDENDS

Dividends payable to owners of the Company attributable to the interim period:

| | **Six months ended 30 September 2016** ***HK$'000*** **(Unaudited)** | Six months ended 30 September 2015 *HK$'000* (Unaudited) |
|---|---|---|
| Interim dividend declared for the six months ended 30 September 2015 of HK1.0 cent per ordinary share | **—** | 15,106 |

During the period from 1 October 2015 to 17 November 2015 (i.e. the record date for interim dividend), new shares had been issued and allotted. The actual interim dividend paid in respect of the year ended 31 March 2016 was HK$15,110,000 as compared to HK$15,106,000 that was disclosed as "proposed interim dividend" in the interim financial statements for the six months ended 30 September 2015.

Dividend payable to owners of the Company attributable to the previous financial year:

| | **Six months ended 30 September 2016** ***HK$'000*** **(Unaudited)** | Six months ended 30 September 2015 *HK$'000* (Unaudited) |
|---|---|---|
| Final dividend declared, approved and paid of HK0.5 cent (2015: HK0.5 cent) per ordinary share | **7,557** | 7,551 |

## 9. (LOSS)/EARNINGS PER SHARE

### (a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the six months ended 30 September 2016 is based on loss attributable to owners of the Company for the period of approximately HK$1,023,000 (2015: profit of HK$40,772,000) and on the weighted average number of ordinary shares in issue less shares held for Share Award Scheme during the period of 1,506,568,804 (2015: 1,456,305,935).

**(b) Diluted (loss)/earnings per share**

The calculation of diluted (loss)/earnings per share for the six months ended 30 September 2016 is based on loss attributable to owners of the Company for the period of approximately HK$1,023,000 (2015: profit of HK$40,772,000) and on the weighted average number of 1,506,568,804 (2015: 1,507,148,657) ordinary shares outstanding during the period, after adjusting for the effects of all dilutive potential shares, calculated as follows:

| | *Weighted average number of ordinary shares* | |
|---|---|---|
| | **Six months ended 30 September 2016 (Unaudited)** | Six months ended 30 September 2015 (Unaudited) |
| For purpose of basic (loss)/earnings per share | **1,506,568,804** | 1,456,305,935 |
| Effect of share awards | — | 5,598,274 |
| Effect of share options | — | 5,177,707 |
| Effect of warrants | — | 40,066,741 |
| For the purpose of diluted (loss)/earnings per share | **1,506,568,804** | 1,507,148,657 |

The Company has outstanding share options during the six months ended 30 September 2016, which were granted on 29 February 2008 and 6 June 2008 with exercise price of HK$0.8340 and HK$0.7623 respectively. The Company also has outstanding warrants during the six months ended 30 September 2016, which were issued on 4 April 2014 with exercise price of HK$0.50. The calculation of diluted loss per share for the six months ended 30 September 2016 does not assume an exercise of those share options and warrants and the vesting of share awards since it would result in a decrease in diluted loss per share.

## 10. INTEREST IN AN ASSOCIATE

In late 2015, the Group incorporated Quam Funds SICAV, an investment company organised under the laws of the Grand Duchy of Luxembourg and launched the first Europe fund, Quam Greater China UCITS Fund ("UCITS Fund") in December 2015.

As at 31 March 2016, the percentage of interests held by the Group in UCITS Fund was approximately 55%. Because the Group had acted as the investment manager of UCITS Fund and the combination of the interests it held together with its remuneration creates exposure to variability of returns from the activities of such investment fund is of significance that indicated the Group was a principal, the Group had consolidated UCITS Fund for the year ended 31 March 2016 in accordance to HKFRSs.

In late September 2016, the Group's interest in UCITS Fund was diluted to 45%. Because the Group as the investment manager of UCITS Fund can be removed by a simple majority vote from other shareholders, the Directors are of the opinion that the Group is subject to substantive removal rights held by other parties and therefore the Group did not have control but retained significant influence over UCITS Fund since then.

With the immediate effect of losing the control, the Group derecognised the assets and liabilities in relation to UCITS Fund, comprising of "Financial assets measured at fair value through profit or loss", "Cash and cash equivalents", "Prepayments, deposits and other receivables" and "Accruals and other payables" of HK$69,780,000, HK$761,000, HK$1,218,000 and HK$32,165,000 respectively from the unaudited condensed consolidated statement of financial position and the fair value of approximately HK$39,594,000 was recognised as the cost on initial recognition of interest in an associate. No gain or loss is derived from the loss of control over the above-mentioned investment fund. The resulted net cash outflow amounted to HK$761,000.

## 11. TRADE RECEIVABLES

| | 30 September 2016 HK$'000 (Unaudited) | 31 March 2016 HK$'000 (Audited) |
|---|---|---|
| *Accounts receivable from dealings in securities, futures and options contracts* | | |
| — Brokers and clearing houses | **956,657** | 906,834 |
| — Cash clients | **13,922** | 9,748 |
| — Margin clients | **623,766** | 711,328 |
| — Clients for subscription of securities | **142** | 1,473 |
| *Accounts receivable from asset management, advisory and other services* | | |
| — Clients | **13,835** | 15,329 |
| | **1,608,322** | 1,644,712 |
| Less: Provision for impairment | **(29,444)** | (22,511) |
| | **1,578,878** | 1,622,201 |

*Notes:*

(a) Amounts due from cash clients, brokers and clearing house for the dealings in securities are required to be settled on the settlement dates of their respective transactions (normally two or three business days after the respective trade dates) and the amounts due from clients for subscription of securities are required to be settled upon the allotment of the securities subscribed. Amounts due from brokers and clearing houses for the dealings in futures and options contracts are repayable on demand except for the required margin deposits for the trading of futures and options contracts. There are no credit terms granted to clients for its asset management, advisory and other services. The amounts due from cash clients after the settlement dates bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread) and the amounts due from clients for subscription of securities bear interest at a fixed rate of 2.1% (31 March 2016: 2.1%) per annum.

(b) Margin clients are required to pledge securities collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount on the market value of securities accepted by the Group. Any excess in the lending ratio will trigger a margin call which the clients have to make good the shortfall. As at 30 September 2016, the market value of securities pledged by margin clients to the Group as collateral was HK$4,087,344,000 (31 March 2016: HK$3,876,538,000) and the Group is permitted to sell these collaterals if the client defaults in payments. The amounts due from margin clients are repayable on demand and bear interest at commercial rates (normally at Hong Kong Dollar Prime Rate plus a spread).

(c) The ageing analysis of the trade receivables based on due date and net of provision is as follows:

| | 30 September 2016 HK$'000 (Unaudited) | 31 March 2016 HK$'000 (Audited) |
|---|---|---|
| Repayable on demand | **603,542** | 697,691 |
| 0–30 days | **969,635** | 913,708 |
| 31–60 days | **455** | 930 |
| 61–90 days | **1,371** | 1,056 |
| 91–180 days | **1,605** | 1,594 |
| 181–360 days | **690** | 3,106 |
| Over 360 days | **1,580** | 4,116 |
| | **1,578,878** | 1,622,201 |

## 12. TRADE PAYABLES

| | **30 September 2016** | 31 March 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| *Accounts payable from dealings in securities, futures and options contracts* | | |
| — Brokers and clearing house | **10,134** | 6,509 |
| — Cash clients | **740,238** | 802,160 |
| — Margin clients | **1,586,960** | 1,361,517 |
| *Accounts payable from financial information and other services* | | |
| — Clients | **4,064** | 1,612 |
| | **2,341,396** | 2,171,798 |

*Notes:*

(a) Accounts payable to cash clients, brokers and clearing house are repayable on demand up to the settlement dates of their respective transactions (normally two or three business days after the respective trade dates).

(b) Accounts payable to margin clients are repayable on demand except for the required margin deposits received from clients for their trading of futures and options contracts.

(c) No ageing analysis in respect of accounts payable from dealing in securities, futures and options contracts is disclosed as, in the opinion of the Directors, the ageing analysis does not give additional value in view of the business nature. The ageing analysis of the accounts payable from financial information and other services is as follows:

| | **30 September 2016** | 31 March 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Audited) |
| Within 180 days | **4,064** | 1,555 |
| Over 180 days | **—** | 57 |
| | **4,064** | 1,612 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

For the period from 1 April 2016 to 30 September 2016 (the "Period"), the Group reports an after tax loss of HK$1,023,000 (2015: profit of HK$40,772,000).

Since our last report to shareholders dated 29 June 2016 and following the termination of the deal with China Minsheng Bank on 12 May 2016, we have been working to resume normal operation after 13 months of disruption, which extended to the first two months of this Period.

However market conditions have not been kind to the financial industry. The combination of both the Brexit vote and the uncertainty associated with the United States presidential election result did not lead to an active market. In fact, the sentiment turned risk adverse, which led to much lower trading volumes and capital market activity. Reflecting this, our total Group revenue suffered a significant decrease, from HK$320,739,000 in the corresponding period last year to, HK$175,056,000, a 45.4% decrease. Nonetheless, we continued to move forward with our business strategy including the launch of Quam Direct, our online brokerage business, and the expansion of our UCITS (Undertakings for the collective investment in transferable securities) funds under our Luxembourg SICAV (Société d'Investissement À Capital Variable) umbrella in association with our partners of Global Alliance Partners (GAP). Despite the difficult environment, we were able to complete a number of initial public offerings and mergers and acquisition ("M&A") transactions which cushioned our results. We also took the opportunity to redeploy our group IT infrastructure by relocating our servers that were housed in our owned premises and have since appointed a sales agent for the disposal of this commercial space.

As was publicly announced in November 2016, the major controlling shareholders have entered into a conditional sales and purchase agreement to sell up to 51% of their shares in the Company (on a fully diluted basis) to Oceanwide Holdings International Financial Development Co., Ltd (a wholly-owned subsidiary of China Oceanwide Group Limited) which, if approved by the regulator, will lead to a change of control and a general offer being made to all shareholders. We are pleased by this outcome which should lead to promising developments for your Company. Public announcements will be made as developments occur in the near future.

## REVIEW OF OPERATIONS

### Securities, futures and bonds dealing

Securities and futures dealing commissions for the Period amounted to HK$102,622,000 (2015: HK$183,859,000), a decrease of 44.2% over the same period last year. The average securities margin loan book was down to HK$669,000,000 for the Period as compared to HK$835,000,000 for the year ended 31 March 2016.

As mentioned earlier, the Quam Direct initiative was soft launched in November 2016 including the opening of a shop outlet in Causeway Bay and a planned program of promotion will be deployed through the media.

In July 2016, we completed the third phase of the back office settlement system being our Quam Option Settlement System (QOSS) which is up and running. We now have a complete in-house developed settlement system for securities, futures and options systems, which gives us the flexibility in managing upscale back office support for clients and in case of regulatory changes.

Equity Capital Market business activity including placement and underwriting fee income for the Period was HK$14,301,000 (2015: HK$18,385,000). Despite poor market sentiment, we managed nevertheless to make our presence felt in the market through a number of successful placements, as compared with the equivalent period last year, which was a bull market between March to June.

**Corporate financial advisory services**

The revenue from corporate finance and advisory services amounted to HK$18,437,000 (2015: HK$25,499,000) down by 27.7%. A total of 16 (2015: 17) transactions were completed, 2 (2015: 2) were initial public offerings and 14 (2015: 15) were corporate advisory and M&A mandates. The departure of a number of staff at the end of last financial year affected our business but since then, we have been able to stabilise the operation and started to grow again.

**Asset management**

Revenue from management and performance fees for the Period was significantly lower and amounted to HK$6,864,000 (2015: HK$50,718,000), a decrease of 86.5% as compared to same period last year. This was the result of lower performance fees generated from our funds under management as well as the closure of our Middle East and Mongolia funds.

Nevertheless, we continued expanding the reach of our first UCITS fund and were able to garner new investors from Europe.

The objective over the second half will be the launch of a high yield fund being under our UCITS umbrella. We will also launch two other funds, a Vietnam fund managed by Capital Partners in Tokyo and an Absolute Return fund managed by Daniel Stewart out of London, both our GAP partners. All three of them are expected to be launched by the first quarter of year 2017.

Total assets under management, comprising managed funds and discretionary accounts, stood at US$111,600,000 (31 March 2016: US$130,700,000) as at 30 September 2016.

**Quamnet**

Quamnet's revenue for the Period was HK$6,909,000 (2015: HK$8,455,000), a decrease of 18.3% as compared to same period last year.

In addition to the usual annual events, Quamnet is working closely with our brokerage unit by leveraging the Quam Direct platform and offering tools and analytics to its clients.

## FINANCIAL REVIEWS

**Capital Structure, Liquidity and Financial Resources**

The Group generally finances its operations with internally generated cash flow as well through the use of banking facilities and short term loans from independent third parties. From time to time, the Company may raise capital by issuing new shares or issuance of debt instruments. The note instrument issued in April 2014 to the principal amount of HK$100,229,000 remains outstanding and will mature in April 2017. All fund raising exercise is primarily applied to working capital for the securities operation, in particular the securities margin loan business as well as to ensure liquidity for our trading and underwriting activities.

As at 30 September 2016, the Group had available aggregate banking facilities of approximately HK$1,322,200,000 (31 March 2016: HK$1,157,200,000), mostly secured through legal charges on certain securities owned by the Group's margin and money lending clients. As at 30 September 2016, approximately HK$231,461,000 (31 March 2016: HK$263,948,000) of these banking facilities were utilized.

The Group's cash and short term deposits as at 30 September 2016 stood at approximately HK$93,125,000 (31 March 2016: HK$83,382,000).

### Gearing Ratio

The Group's gearing ratio was 54.8% as at 30 September 2016 (31 March 2016: 59.6%), being calculated as borrowings over net assets. The borrowings are attributable mainly to the facilitation of securities margin lending business. The management has applied prudent risk and credit management on the increased lending to clients and borrowings from banks. In addition, the Group is required to strictly follow regulatory re-pledging ratios and prudent bank borrowing benchmarks that govern the extent of borrowings in the securities margin lending business.

## EMPLOYEES AND REMUNERATION POLICIES

As of 30 September 2016, the Group had 167 full time employees and 1 part time employee in Hong Kong (2015: 178 full time employees and 2 part time employees in Hong Kong), together with 45 full time employees based in the Mainland China (2015: 54 full time employees based in the Mainland China). In addition, the Group has 134 commission sales representatives (2015: 156). The total headcount of the Group as at 30 September 2016 is 347 (2015: 390).

Competitive total remuneration packages are offered to employees by reference to prevailing market practices and standards and individual merit. Salaries are reviewed annually and bonuses are paid with reference to individual performance appraisals, prevailing market conditions and the Group's financial performance. Other benefits offered by the Group include a mandatory provident fund scheme and medical and health insurance. In addition, the Group has maintained a share option scheme, a restricted share award scheme and a phantom share scheme as a means for reward and staff retention.

## RISK MANAGEMENT

The Group adopts stringent risk management policies and monitoring systems to contain exposure associated with credit, liquidity, market and IT systems in all its major operations. In addition, compliance and regulatory risk is continually monitored. We do appoint yearly outside parties to monitor different aspects of our business such as money-laundering, treasury control and systems, staff procedure and compliance. The management believes it is of utmost importance that every aspect of our business be regularly probed and tested by outside parties.

### Credit Risk

The Group's Credit Committee within the securities and futures operation meets regularly to review credit limits for clients and identify and assess risks associated with financial products. The Credit Committee, which is appointed by the Executive Committee of the Company and ultimately reporting to the Board, is responsible for the approval of individual stocks acceptable for margin lending. The stock list is revised as and when deemed necessary by the Committee. The Committee will prescribe from time to time lending limits on individual stocks and/or for each individual client, taking into account loan and stock concentration exposures.

The credit control department is responsible for monitoring and making margin calls to clients when limits have been exceeded and when concentration risks for particular counters have been reached and posed a strategic risk. Failure to meet margin calls can result in liquidation of the customer's positions. The credit control department runs stress tests on loan portfolios to determine the impact on the firm's financial position and exposure.

**Liquidity Risk**

The Group's operating units are subject to various liquidity requirements as prescribed by the authorities and financial market regulators. The Group has put in place monitoring systems to ensure that it maintains adequate liquid capital to fund its business commitments and to comply with the relevant rules including Financial Resources Rules. As a further safeguard, the Group has maintained banking facilities to meet contingencies in its operations. The Company will consider the need to raise capital whenever the business operations growth justify these. In periods of high market volatility, the management believes the Group's working capital is adequate to meet its financial obligations.

**Market Risk**

The Group offers margin trading in securities and futures and options products. Clients are required to maintain a margin in order to hold positions and meet margin calls when there are changes in value of the underlying interest. The margins to be maintained for futures and options products are based on requirements set by the exchanges and counter party brokers. The margin ratios for securities margin loans are based on a combination of factors including indicative acceptable lending rates from our bankers, the quality of the company represented by the securities, the liquidity of the securities, and the concentration level of securities held. All margin ratios are reviewed and assessed by the Credit Committee. In situations where there may be sudden volatile market movement (e.g. market gap opening) affecting client's positions, the liquidation of these positions can be compromised due to market liquidity and therefore, expose the Group to credit and delivery risk.

The Group's exposure to underwriting commitments is subject to market volatility and sentiment. In that respect, the Group follows strict limits as to the maximum exposure to any underwriting commitment. The Board has established prudent guidelines in respect to net exposure commitment per issue and aggregate exposure commitment at any one time as measured against the net asset value of the Group.

**IT Risk**

The Group is very conscious of data security and access control risk associated with client data and trading platforms that allow clients access to trading systems. The Group deploys industry best practice in its IT architecture, implementing firewalls, intrusion surveillance, and the prevention of denial of service attacks. Furthermore, a full on back up and contingency plan is established to ensure continuity in case of systems fall over.

**Legal and Regulatory Risk**

As a financial group operating the regulated businesses, we endeavor to meet the stringent and evolving regulatory requirements, including but not limited to those related to investor protection, market integrity and anti-money laundering. Our compliance team working together with third party professionals continually review and scrutinize our internal control processes to reduce the legal and regulatory risk that can impact the Group's operation.

## PROSPECTS

With world markets shaken by unexpected political events, including Brexit and United States presidential election, and uncertainty with regards to the forthcoming referendum in Italy and leadership elections in France and Germany, we expect markets to remain volatile.

However, the expected change of control under China Oceanwide Group should provide us with exciting opportunities for outbound investments and developments in China.

We are looking forward to that new phase and take this opportunity to thank all our stakeholders for their continuous support and faith in our operations. We are optimistic for the future.

## INTERIM DIVIDEND

The Board of the Company has resolved not to declare an interim dividend in respect of the six months ended 30 September 2016 (2015: HK1.0 cent per share).

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 September 2016, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 of the Listing Rules. The code of conduct is also updated from time to time in order to keep abreast with the latest changes in the Listing Rules. It has also been extended to specific employees of the Company who are likely to be in possession of unpublished price-sensitive information in respect of their dealings in the securities of the Company.

Having made specific enquiry of all the Directors, all of them confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the six months ended 30 September 2016.

## CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provisions set out in Appendix 14 of the Listing Rules, titled "Corporate Governance Code and Corporate Governance Report", throughout the six months ended 30 September 2016, save for the deviations from code provision A.5.1 which stipulates that a Nomination Committee should be established. In view of the existing size of the board and business operation of the Group, it is considered more beneficial and effective to have this relevant function performed by the board itself rather than through the establishment of such committee.

## AUDIT COMMITTEE REVIEW

The audit committee of the Company comprises three independent non-executive Directors. The audit committee has met with BDO Limited, the external auditor of the Group, to review the accounting policies and practices adopted by the Group and review the unaudited condensed consolidated financial results of the Company for the six months ended 30 September 2016.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The announcement of unaudited interim results for the six months ended 30 September 2016 of the Group is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and on the website of the Company at www.quamlimited.com respectively. The Interim Report 2016 of the Company will be despatched to the shareholders of the Company and made available on the above websites in due course.

On behalf of the Board
**Quam Limited**
**Bernard POULIOT**
*Chairman and Executive Director*

Hong Kong, 30 November 2016

*As at the date of this announcement, the board of directors of Quam Limited comprises three executive directors, namely Mr. Bernard POULIOT, Mr. Kenneth LAM Kin Hing and Mr. Richard David WINTER and three independent non-executive directors, namely Mr. Kenneth YOUNG Chun Man, Mr. Robert CHAN Tze Leung and Mr. Robert Stephen TAIT.*