



證券業合作社控股有限公司
STOCKMARTNET HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)



Annual Report **2002**

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Characteristics of GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed companies.

Corporate Information

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681GT
George Town, Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 2501-03, 25th Floor
Wing On Centre
111 Connaught Road Central
Hong Kong

COMPANY WEBSITE

www.stockmartnet.com

COMPANY SECRETARY

Chau Kwok Ming, ACS, ACIS

COMPLIANCE OFFICER

Lee Wai Hung, Alan

QUALIFIED ACCOUNTANT

So Kin Wing, AHKSA, CA

AUDIT COMMITTEE

Chung Shui Ming, Timpson
Cheng Mo Chi
Tsui Yiu Wa, Alec
Lee Yiu Sun

AUTHORISED REPRESENTATIVES

Lee Wai Hung, Alan and So Kin Wing

AUTHORISED PERSONS TO ACCEPT SERVICE OF PROCESS AND NOTICES

Lee Wai Hung, Alan

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
P.O. Box 705
Butterfield House
68 Fort Street
George Town
Grand Cayman
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
Rooms 1901-05, 19/F,
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKER

Wing Hang Bank, Limited
161 Queen's Road Central
Hong Kong

Chairman's Statement

Year 2002 was a challenging year for the financial industry. With the uncertainty of the world economy, reduced local stock market turnover, the businesses of the traditional small and medium sized stockbrokers were adversely affected.

Stockmartnet Holdings Limited ("Stockmartnet," the "Company" and together with its subsidiaries the "Group") has continued to expand products and services to become a "one-stop" total solution financial services provider, helping brokers to brace this harsh economic environment. In late 2002, we acquired a trading right at the Stock Exchange of Hong Kong Ltd. and launched our total infrastructure service business.

At around the end of 2002, we reached an agreement with the first service provider to retire their server hosting services. As a more economical but compatible alternative, we have teamed up with a new service provider. This arrangement not only allows us to reduce our technology expenses and financial commitments but also enabled us to make available a comprehensive range of trading and settlement services readily marketable to our prospective users.

With the successful launch of the new total infrastructure service, I am pleased that the Group has steered in the right direction in fulfilling our mission to elevate the competitiveness of our small and medium size broker members. With the advent in 2003, we will continue to meet our challenges by developing and providing more products and services to our members. We are confident that our hard-work will eventually bring benefits to our members and shareholders.

BUSINESS REVIEW

The following is a brief account of the latest status of each line of business services as at the latest reporting date.

Securities Trading Platform

The implementation of the new ASP platform has provided our subscribers with capability to trade through both intranet and internet. The electronic platform is also capable of expanding into a multi-access trading system using multi-channels via portal devices, mobile phones and other wireless devices etc.

Financial Portal

By partnering with a third-party information provider on the web, we have been providing a low cost but comprehensive information services. The contents include not only local stock market news, prices, turnover and other valuable information and data but also global market indices and other enhanced features.

We are currently exploring the possibility in co-operating with an overseas research institution in the offering of various forms of market and company research provided via our website to our subscribers.

Chairman's Statement

BUSINESS REVIEW *(continued)*

Back Office System

With the adoption of the new system provided by the provider of our ASP platform, our back office system has been in place after a number of enhancements and modifications to its original functions and features. We are confident that the electronic platform that we are now operating is able to provide an integrated straight-through solution for a broker member to process its stockbroking activities from trade execution down to post clearing and settlement activities.

Margin Financing

We have been promoting our margin financing business to our members but due to the sluggish market turnover and the keen competition by other financial institutions, the business has not been growing as expected. We anticipate that once the market conditions improve, the business growth in this area will improve accordingly.

Placing/underwriting and Placement

Our placing/underwriting service has been launched for sometime. However, a general lack of interest from investors in subscribing for new shares through IPOs has impeded the interest level of our small and medium sized broker members. We trust that once the market sentiments turns, the business volume of this service will certainly pick up. In the meantime, we will continue to promote this service and thrive to dig out issues that will appeal to investors.

Marketing and promotion activities

Our web-site has undergone a face lift and new contents have been inserted including new "Products and Services" and "Company Research" sections with more in-house research reports as well as those offered by others. There is also a new function to provide up-to-date research upon request under the "Q&A" section.

We have started to organize seminars for the members in promoting the Group's new products and services as well as to address the industry's business and operating issues due to changing market environments and regulatory requirements.

Chairman's Statement

BUSINESS REVIEW *(continued)*

Total infrastructure service

Towards the end of the 3rd Quarter 2002, Stockmartnet has successfully acquired an Exchange trading right. With uncertain market outlook, it is obvious that for many small brokers, the immediate priority is to save costs. Our introduction of such service can provide a better alternative for them to consider when addressing their on-going concern.

In view of this, Stockmartnet has invited small and medium size brokers to join our family by taking advantage of our total infrastructure suite of services. Under these arrangements, Stockmartnet would take over all back-office functions, offering cost reduction to brokers based on economy of scale. Brokers would be able to concentrate on market expansion whilst preparing for the improvement of market conditions. Furthermore, Stockmartnet would also offer other wholesale financial products and services to small and medium size brokers who would not otherwise be able to offer such products and services to their clients.

Showcase

On 2nd December, 2002, we were able to launch a showcase of our total infrastructure service at Duddell Street as a result of the Group's acquisition of an Exchange trading right and other fixed assets from CU Securities Limited. The operation is running smoothly and has generated revenue for the Group. We are of the view that the set-up of this showcase can entice the interest of other broker members to join us.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group recorded a turnover of approximately HK\$1,765,000 for the year ended 31st December, 2002, a 239% increase from approximately HK\$521,000 as compared with last year. The increase was mainly attributed to the full year launch of trading platform business and the initial contribution from brokerage and securities margin financing business during the year. Of the total turnover amount, approximately HK\$1,414,000 or 80% was generated from the trading platform business, and approximately HK\$351,000 or 20% from the brokerage and securities margin financing business. Due to the continuing depressed market sentiment of the stock market in 2002, the loss attributable to shareholders for the year ended 31st December, 2002 increased to approximately HK\$22,646,000 (2001: approximately HK\$15,483,000). Although the Group has implemented prudent cost control in its operations, the total operating expenditures increased to approximately HK\$25,347,000 for the year ended 31st December, 2002 comparing to approximately HK\$16,305,000 for the previous year as the Group continued to expand its products and services.

Pursuant to the Company's announcement made on 21st January, 2003, the Group executed a mutual release with its first service provider and entered into a new server hosting services agreement with a new service provider in relation to the outsourcing of the technical operation of its brokerage infrastructure services. Pursuant to the mutual release, the Group paid a sum of HK\$800,000 to its first service provider. Neither the Group nor its first service provider will have any further obligations or liabilities towards each other. As a result of such mutual release, the Group significantly reduced its commitments totalling approximately HK\$211 million to HK\$3.6 million in the coming four years. For the year under review, the cost of the trading platform was approximately HK\$4,246,000 (2001: HK\$407,000).

Financial position

As at 31st December, 2002, the Group had total assets of approximately HK\$59,657,000 (2001: HK\$11,539,000) including bank balances and cash of approximately HK\$46,244,000 (2001: HK\$267,000). There was no bank overdraft or loan incurred during the year under review. As a result, the Group's gearing ratio, defined as the Group's total borrowings divided by shareholders' funds, was nil. The Group financed its operations entirely with internal resources. With net current assets of approximately HK\$50,251,000, the Group was in a financially liquid position at the end of the year.

The Group maintains a conservative treasury policy to ensure no unnecessary risks are taken with the Group's assets and holds only cash and other short term deposits.

Since most of the transactions of the Group are denominated in Hong Kong dollars, no hedging or other arrangements to reduce currency risk have been implemented.

Management Discussion and Analysis

FINANCIAL REVIEW *(continued)*

Saved as disclosed in a circular issued by the Company in relation to the Group's purchase of certain operating assets of CU Securities Limited, assumption of the remainder of a lease held by Entrust Properties Limited, conditional agreement to purchase the entire issued share capital of CU Futures Limited and conditional agreement to procure a purchaser for an Exchange trading right; and in an announcement issued by the Company in relation to the Group's acquisition of an Exchange trading right from First Sign Securities Limited, the Group made no other material acquisitions or disposals during the year. As at 31st December, 2002, the Group had no plan for material investments or capital assets other than those stated in the prospectus of the Company dated 8th January, 2002 (the "Prospectus").

Employees

As at 31st December, 2002, the Group's headcount amounted to 30 employees (2001: 16). The total staff costs amounted to approximately HK\$14,194,000 (2001: HK\$10,245,000) for the year ended 31st December, 2002. The management believes that the quality of the Group's employees is the most important factor in sustaining its growth and operations. Employees are remunerated in accordance to their performance and working experience.

Share option schemes

On 17th December, 2001, two share option schemes of the Company were approved by shareholders of the Company, namely the Pre-IPO Share Option Plan and the Share Option Scheme (both terms as defined in the Prospectus). The summary of the terms of the two scheme was set out in Appendix V to the Prospectus under the Section headed "Share Schemes".

As at 31st December, 2002, the Company had granted 20,592,000 options under the Pre-IPO Share Plan to three Executive Directors at the exercise price of approximately HK\$0.019 per share which would not be exercisable for at least two years after listing.

One of the Executive Directors resigned on 30th November, 2002 and the 5,148,000 options granted to him under the Pre-IPO Share Option Plan lapsed on 28th February, 2003.

No options were granted under the Share Option Scheme during the year.

Management Discussion and Analysis

FUTURE PLANS

Launch of Hong Kong Futures Business

Although the turnover of Hong Kong stock market declined in 2002, the transactions of Hang Seng Index Futures showed a growth in numbers of average daily contracts from 18,000 to 22,000 and a monthly contract volume from 398,000 to 440,000. The Mini-Hang Seng Index Futures also recorded a remarkable growth. The average daily contract number increased from 4,000 to 5,000 and the monthly contract volume increased from 91,000 to 114,000. The increase in the number of transactions, as claimed by some financial analysts, was because the investors shifted their investment focus from stock market to futures market.

As part of its continuing commitment to develop new products and services for broker members, the Group has acquired Hong Kong futures infrastructures service capacity. This will enable the Group to provide trading and settlement infrastructure services to brokers interested in offering Hong Kong futures trading to their clients. The anticipated launch date for this product will be in the second quarter of 2003.

Launch of US Equities and Futures Business

With the largest market capital in the world and the highest trading volume, the products in relation to US equities and futures trading have been the popular supplemental investment alternatives for the Hong Kong financial market. The Group is currently in the process of identifying a credible US partner to put together a seamless trading and settlement services in US equities, futures and options. Once the system set up and service packages are finalized, the Group will start promoting this sale service to its broker members.

Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual progress made in comparison with the business objectives that were set out in the Prospectus, from the latest practicable date as stated in the Prospectus to 31st December, 2002 (the "Period").

Business Objectives

SMNOnline

The trading engine SMNOnline was scheduled to be fully operational (both internet trading and intranet trading). The trading engine will also be able to support institutional trading, custody operations and stock trading in multiple markets.

SMNOnline would be able to interface with the Group's financial portal, margin loan financing, underwriting and placement and back office systems.

SMNOnline would be able to provide margin call reports.

Financial Portal

The Group would assist users to develop their own website which would be capable of interfacing with SMNOnline for internet trading. In order to stimulate advertising and other revenue, the Group would devise a marketing plan to promote stockmartnet.com.

Actual Progress

SMNOnline

With the switching to a proven ASP electronic platform operated by the new service provider, both the intranet and internet trading facilities are available for our subscribers. The system is also capable to expand into multiple trading access through the devices such as PDAs and mobile phones etc. Other than fundamental market news, data and information, the new service provider will also provide, upon demand, additional functions and features to enable the subscribers to use them as their investment tools. The functions of the new platform are able to meet trading requirements for both retail and institutional clients and can be enhanced for trading in multiple markets.

The new electronic platform is capable of providing integrated trading and settlement function which can be interfaced with our financial portal (internet trading). Our in-house development for underwriting and placement functions have been completed in 2002.

The system functions offered by the new service provider have built-in mechanisms for operating margin loan financing that included margin call reports.

Financial Portal

The Group is ready to assist its broker users to develop their own websites.

Stockmartnet.com has undergone another "face lift" with newly added functions. The contents are provided by a third party information provider and we are in the process of exploring commercial viability to team up with an overseas research institution to provide market and company research to our subscribers.

The Group had devised a marketing and advertising package targeting at listed issuers. We have been promoting this package to certain listed issuers but the response has not been particularly encouraging given the difficult operating environment.

Comparison of Business Objectives with Actual Business Progress

Business Objectives

Planning/underwriting

The Group intended to begin to provide underwriting services for initial public offers, placings, rights issues and open offers.

Margin financing

The Group would introduce phase one of its margin loan financing business to brokers once it had obtained the necessary licence. The preparation work would include applications for licences from the SFC, set-up of internal controls and risk management procedures and in-house software development.

The Group also expected to be ready to launch phase two of its major loan financing services to customers of our users.

Actual Progress

Planning/underwriting

Stockmartnet Financial Services Limited obtained a securities dealer's licence so that it may carry out underwriting and placing activities.

Stockmartnet Capital Limited obtained an investment adviser's licence so that it may carry out the regulated activities of advising on securities and corporate finance.

The Group commenced its first underwriting and placing business in June 2002 to its service clients. Despite the fact that, due to market conditions, most retail investors appear to have less enthusiasm in the subscription of new shares via IPOs, we will continue to explore and identify any prospective issue that will be attractive and appealing to our customers.

Margin financing

Stockmartnet Financial Services Limited obtained a securities dealer's licence so that it may carry out the regulated activities of dealing in securities, including securities margin financing activities.

Stockmartnet Financial Services Limited also obtained banking facilities for further development of this business.

Relevant account opening documents, internal controls, and risk management procedures were finalized.

The Group has been promoting its services to broker users. However, due to sluggish market turnover and keen competition, the business volume has not been picking up as anticipated. We are of the view that once the market conditions improve, the volume of the services will grow.

Comparison of Business Objectives with Actual Business Progress

Business Objectives

Back office system

The Group would commence system testing and implementation of back office system software during the Period.

Actual Progress

Back office system

With the advent of teaming up with the new service provider, we have an integrated electronic trading and settlement system in place before the end of the Period.

We expect that it will enable us not only to better develop our products and services along the direction of multi-market and multi-currency, but also put the Group in an advantageous position in terms of time to market in offering a complete range of electronic services to our broker users.

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTORS

SETO John Gin Chung, aged 54, is the Chairman and a Non-executive Director of the Company and joined the Group in May 2001. Before joining the Group as a non-executive Director, Mr. Seto had acted as a consultant to the Group since April 1999, together with the other non-executive directors, having the primary responsibility for strategy formulation, market consultation and promotion of new services of the Group. He is a non-executive director of Hong Kong Exchanges and Clearing Limited ("HKEx") and Kowloon Development Company Limited, and was the Chief Executive of HSBC Broking Services (Asia) Limited. Mr. Seto was a Council Member of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 1994 to 2000 and was the first Vice Chairman from 1997 to 2000. He holds a Master of Business Administration degree from New York University, US and has over 28 years of experience in the securities and futures industry.

LEE Yiu Sun, aged 45, is a Vice Chairman and a Non-executive Director of the Company and joined the Group in May 2000. He has been a Vice-Chairman of the Hong Kong Stockbrokers Association since 1997. Mr. Lee was the executive director of NSC Securities (Asia) Limited. Prior to joining NSC Securities (Asia) Limited, he was the managing director of Celestial Asia Securities Holdings Limited. Mr. Lee was a Council Member of the Stock Exchange from 1997 to 1999 and a Committee Member of the Chinese Gold and Silver Exchange Society from 1994 to 1999. Mr. Lee holds a Master of Arts Degree in Accounting and Finance, and is an Associate Member of the Chartered Institute of Management Accountants and a Fellow Member of the Hong Kong Society of Accountants, and a Certified Public Accountant. Mr. Lee has over 14 years of experience in the securities and financial service sector.

YUE Wai Keung, aged 50, is a Vice Chairman and a Non-executive Director of the Company and joined the Group in April 1999. He is a dealing director of Luen Fat Securities Company Limited as well as a director of a number of privately-held securities and financial service companies. Mr. Yue is also a director of the Hong Kong Stockbrokers Association, a non-executive director of HKEx and Prosper eVision Limited. He was a Council Member of the Stock Exchange from 1993 to 2000 and the Deputy Chairman of Hong Kong Securities Clearing Company Limited ("Hongkong Clearing") from 1997 to 2000. Mr. Yue was also a member of the Departmental Advisory Board of Guangdong Academy of Social Science in 1997. He has over 30 years of experience in the securities and futures industry.

CHAN Henry, aged 37, is a Non-executive Director of the Company and joined the Group in July 2000. He has been an executive director of Sanfull Securities Limited. Mr. Chan is currently a member of the Listing Committee of the Main Board of the Stock Exchange and a member of Clearing Consultative Panel of HKEx. Mr. Chan is an assessor of the Hong Kong Securities Institute. He was a Council Member of the Stock Exchange from 1994 to 2000, and was appointed as the convenor of its Trading and Settlement Committee from 1997 to 2000. He was also a director of Hongkong Clearing during 1996 to 2000. Mr. Chan holds a Master of Business Administration degree and has over 16 years of experience in the securities and financial service sector.

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTORS *(continued)*

CHAN Kai Yu, Martin, aged 62, is a Non-executive Director of the Company and joined the Group in July 2000. He is the managing director of Wellfull Securities Company Ltd and a vice-chairman of the Hong Kong Stockbrokers Association. Mr. Chan was a member of the Nominating Committee of the Stock Exchange during 1997 to 2000. He has over 37 years of experience in the securities and financial service sector.

CHAN Hung Ti, aged 52, is a Non-executive Director of the Company and joined the Group in July 2000. He is the managing director and a dealing director of Troopers Securities Limited, and a fellow of the Hong Kong Stockbrokers Association. Mr. Chan has over 30 years of experience in the securities industry.

CHENG Chi Lam, aged 55, is a Non-executive Director of the Company and joined the Group in April 1999. He is the sole-proprietor of Lee Tat & Company. Mr. Cheng is also a Committee Member of the Hong Kong Stockbrokers Association and a member of the Disciplinary Committee of the Stock Exchange. He was a Council Member of the Stock Exchange from 1993 to 1995 and a member of the Nominating Committee of the Stock Exchange from 1998 to 2000. Mr. Cheng has over 32 years of experience in the securities industry.

CHEUNG Wah Fung, Christopher, JP, aged 50, is a Non-executive Director of the Company and joined the Group in May 2000. He is the founder and managing director of Christfund Securities Limited, and a director of the Chinese General Chamber of Commerce. He was a Council Member of the Stock Exchange from 1997 to 2000 and a director of Hongkong Clearing from 1998 to 2000. Mr. Cheung was elected as a member of the Selection Committee for the First Government of Hong Kong in 1996. He has over 31 years of experience in the securities and financial service industry.

ESPINA, Anthony, aged 54, is a Non-executive Director of the Company and joined the Group in July 2000. He is the managing director of Goldride Securities Limited. Mr. Espina was a partner of Arthur Andersen & Co. from 1982 to 1986 and Deloitte Touche Tohmatsu from 1986 to 1990. He was also the president of the Hong Kong Computer Society in 1980. Mr. Espina was seconded to the Stock Exchange in 1988 and was instrumental in the design of the Central Clearing and Settlement System ("CCASS"). He holds a Bachelor's degree in Accounting and is an Associate Member of each of the Australian Society of Certified Practicing Accountants and the Hong Kong Society of Accountants, and a Certified Public Accountant.

LEE Jor Hung, BBS, aged 48, is a Non-executive Director of the Company and joined the Group in April 1999. He is the chairman of DL Brokerage Limited and a non-executive director of HKEx. Mr. Lee is a member of the Securities and Futures Appeals Panel and the New Market Development Group of the Stock Exchange. He is the Permanent Honourable President and Past-Chairman of the Hong Kong Stockbrokers Association. Mr. Lee was also a member of the Advisory Committee to the SFC, vice-chairman of the Stock Exchange and the deputy chairman of Hongkong Clearing. He holds a degree of Bachelor of Commerce and a Master of Business Administration degree. Mr. Lee has over 20 years of experience in the securities and investment industry.

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTORS *(continued)*

LEE Sheung Yam, aged 48, is a Non-executive Director of the Company and joined the Group in May 2001. Before joining the Group as a Non-executive Director, Mr. Lee had acted as a consultant to the Group since April 2000, together with the other non-executive directors, having the primary responsibility for strategy formulation, market consultation and promotion of new services of the Group. He is a director of a private company seeking investment opportunities in China. Mr. Lee was the head of the corporate finance department of a leading investment bank in Hong Kong. He holds a Master of Business Administration degree and is a Fellow Member of the Association of Certified Accountants and an Associate Member of the Hong Kong Society of Accountants. Mr. Lee has over 21 years of experience in the accounting and corporate finance field.

WONG Wai Sum, aged 51, is a Non-executive Director of the Company and joined the Group in May 2000. He is the managing director of Hing Wong Securities Limited and is the chairman of the Hong Kong Stockbrokers Association. Mr. Wong is also a director of BOC China Fund Limited. He was a Council Member of the Stock Exchange from 1990 to 1993 and the convener of its Compensation Committee from 1992 to 1993. Mr. Wong was also a director of Hongkong Clearing from 1992 to 1993. He has over 22 years of experience in the securities industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHUNG Shui Ming, Timpson, GBS, JP, aged 51, joined the Group in December 2001. He is currently the Chairman of the Hong Kong Housing Society. He is also a member of National Community of the 10th Chinese People's Political Consultative Conference, and a Council Member and the Treasurer of the City University of Hong Kong. Formerly, he was a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Executive Council of the Hong Kong Special Administrative Region, the Chief Executive of the Hong Kong Special Administrative Region Government Land Fund Trust and a Hong Kong Affairs Advisor. Mr. Chung holds a Master of Business Administration Degree and is a Fellow Member of the Hong Kong Society of Accountants.

CHENG Mo Chi, JP, aged 53, joined the Group in December 2001 and is the senior partner of Messrs. P.C. Woo & Co., a firm of solicitors and notaries in Hong Kong. He is currently the chairman of the Hong Kong Institute of Directors and the Committee on the Promotion of Civic Education, and is a member of the Listing Committee of the Main Board of the Stock Exchange. Mr. Cheng also serves on the boards of various listed companies as an independent non-executive director. He was a member of the Legislative Council of Hong Kong between 1991 and 1995.

Directors and Senior Management Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

TSUI Yiu Wa, Alec, aged 53, joined the Group in December 2001. He is one of the founders of WAG Financial Services Group Limited, a financial and management consulting services group in Hong Kong. He is the chairman of the Hong Kong Securities Institute. He also serves on the boards of various listed companies as an independent non-executive director. Mr. Tsui was the Chief Executive of iRegent Group Limited from August 2000 to February 2001. Prior to joining iRegent Group Limited, he was the Chief Operating Officer of HKEx from March to July 2000 and the Chief Executive of the Stock Exchange from February 1997 to July 2000. Mr. Tsui holds a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering. He has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management.

EXECUTIVE DIRECTORS

LEE Wai Hung, Alan, aged 46, is the Chief Executive Officer of the Group and joined the Group in February 2001. Before joining the Group, he was Acting Head of the Clearing Business Unit of HKEx. He was employed by the Stock Exchange from 1988 to 1990 as its Acting Head of Operation Services Division responsible for trading, settlement and information technology. Mr. Lee was transferred to Hongkong Clearing to become its Head of Operation Services Division in 1990 and was one of the key founding members in the design, development and implementation of CCASS. He holds a Bachelor of Arts degree in Economics and a Master of Business Administration degree. Mr. Lee has over 22 years of experience in the securities and financial service sectors.

SO Kin Wing, aged 41, is the Chief Financial Officer of the Group and joined the Group in February 2001. Prior to joining the Group, he was the financial controller and the general manager of Risk Management of a listed brokerage company and had also spent years with several international accounting firms. Mr. So holds a Bachelor's degree in Economic and Social Studies, majoring in accounting and business finance, and is an Associate Member of the Institute of Chartered Accountants of Ontario in Canada and the Hong Kong Society of Accountants. Mr. So has over 17 years of experience in accounting and stockbroking.

SENIOR MANAGEMENT

CHAU Kwok Ming, aged 40, is the Company Secretary of the Group and joined the Group in March 2001. Prior to joining the Group, he has been working in the corporate secretarial field with over 13 years of experience gained from various listed companies. Mr. Chau is an Associate Member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries.

LEE Sing Kai, Albert, aged 46, is the Financial Controller of the Group and joined the Group in April 2001. Prior to joining the Group, Mr. Lee had served a Hong Kong listed company as its financial controller. He has over 14 years' extensive working experience in the finance and accounting fields.

Directors and Senior Management Profile

SENIOR MANAGEMENT *(continued)*

LAM Sui Chung, aged 42, is the Senior Manager – Operations and Customer Services Department of the Group and joined the Group in October 2002. Prior to joining the Group, he has held various managerial positions in Wilco International Asia Pacific Limited, Crosby (HK) Limited, CNM Securities Company Limited and Hong Kong Clearing. Mr. Lam has over 20 years' solid experience in the finance and business consultancy industry.

LAM Wai Yan, Josephine, aged 38, is the Senior Manager – Marketing and Business Development Department of the Group and joined the Group in August 2002. Prior to joining the Group, she has held numerous corporate positions in DBS TD Waterhouse Securities (Hong Kong) Limited (Chief Operating Officer), DBS Securities Hong Kong Limited (Regional Executive Director), and Charles Schwab, Hong Kong, Limited (Director of Business Development). Ms. Lam has over 10 years' experience in the financial investment industry in the US and Asia. Throughout her career path in this industry, she has focused on business development and marketing, and start-up of retail securities businesses. Ms. Lam holds a Bachelor of Fine Arts degree from University of San Francisco.

LEUNG Chin To, Kenrick, aged 39, is the Head of Information Technology of the Group and joined the Group in May 2001. Prior to joining the Group, he was the Head of Information Technology in HSBC Broking Services (Asia) Limited. Mr. Leung holds a Bachelor of Science Degree in Computer Studies and a Master of Science Degree in Electronic Commerce and Internet Computing. He has over 17 years of experience in the IT and financial industries.

Directors' Report

The Directors are pleased to present their annual report together with the audited financial statements of the Company and Group for the year ended 31st December, 2002.

CORPORATE REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET

The Company was incorporated on 24th May, 2001 as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands.

Pursuant to a corporate reorganisation (the "Corporate Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group on 17th December, 2001.

Details of the Corporate Reorganisation are set out in the Prospectus and note 1 to the financial statements.

The shares of the Company have been listed on GEM with effect from 11th January, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 15 to the financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statements on page 27.

The Directors do not recommend the payment of a final dividend by the Company for the year ended 31st December, 2002 (2001: nil).

PROPERTY AND EQUIPMENT

Details of movements during the year in the property and equipment of the Group and the Company are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 20 to the financial statements.

Directors' Report

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions of dividends to the shareholders subject to the provisions of its Memorandum and Articles of Association and a statutory solvency test. In accordance with Article 137 of the Company's Articles of Association, dividends may be declared and paid out of the profits of the Company or from any reserves set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared or paid out of share premium account. Accordingly, Company's reserves available for distribution amounted to approximately HK\$43,997,000 as at 31st December, 2002.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were as follows:

Executive Directors

Lee Wai Hung, Alan (*Chief Executive Officer*)

So Kin Wing (*Chief Financial Officer*)

Yuen Yeung Ngam (*Chief Technology Officer*) (resigned on 30th November, 2002)

Non-executive Directors

Seto John Gin Chung (*Chairman*)

Lee Yiu Sun (*Vice Chairman*)

Yue Wai Keung (*Vice Chairman*)

Chan Henry

Chan Kai Yu, Martin

Chan Hung Ti

Cheng Chi Lam

Cheung Wah Fung, Christopher

Espina Anthony

Lee Jor Hung

Lee Sheung Yam

Wong Wai Sum

Independent Non-executive Directors

Chung Shui Ming, Timpson

Cheng Mo Chi

Tsui Yiu Wa, Alec

Directors' Report

DIRECTORS (continued)

Each Non-executive Director should retire from office subject to rotational retirement provisions in accordance with the Company's Articles of Association (the "Articles"). In accordance with Article 87(1) of the Articles, Mr. Yue Wai Keung and Mr. Chan Kai Yu, Martin will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual meeting. All the remaining Directors shall continue to hold office.

The Independent Non-executive Directors have a fixed term of office of one year and are subject to retirement by rotation and, being eligible, offer themselves for re-election, in accordance with the Company's Articles.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of four years commencing from either 1st February or 1st May, 2001 which is not determinable within one year without payment of compensation.

Other than as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2002, the interests of the Directors and their associates in the share capital of the Company, as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or as required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange ("GEM Listing Rules") relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Number of shares beneficially held			Percentage Shareholding
	Personal	Corporate	Total	
Seto John Gin Chung	4,719,000	–	4,719,000	0.62%
Lee Yiu Sun	4,719,000	–	4,719,000	0.62%
Yue Wai Keung	4,719,000	2,574,000 (Note 1)	7,293,000	0.96%
Chan Henry	4,719,000	2,574,000 (Note 2)	7,293,000	0.96%
Chan Kai Yu, Martin	4,719,000	2,574,000 (Note 3)	7,293,000	0.96%

Directors' Report

DIRECTORS' INTERESTS IN SHARES *(continued)*

Name of Director	Number of shares beneficially held			Percentage Shareholding
	Personal	Corporate	Total	
Chan Hung Ti	4,719,000	2,574,000 <i>(Note 4)</i>	7,293,000	0.96%
Cheng Chi Lam	7,293,000	–	7,293,000	0.96%
Cheung Wah Fung, Christopher	4,719,000	2,574,000 <i>(Note 5)</i>	7,293,000	0.96%
Espina Anthony	5,061,000	2,574,000 <i>(Note 6)</i>	7,635,000	1.00%
Lee Jor Hung	4,719,000	2,574,000 <i>(Note 7)</i>	7,293,000	0.96%
Lee Sheung Yam	4,719,000	–	4,719,000	0.62%
Wong Wai Sum	4,719,000	2,574,000 <i>(Note 8)</i>	7,293,000	0.96%
Lee Wai Hung, Alan	1,980,000	–	1,980,000	0.26%

Notes:

1. Mr. Yue Wai Keung was to be interested in 2,574,000 shares through his controlling interest in Luen Fat Securities Company Limited.
2. Mr. Chan Henry was to be interested in 2,574,000 shares through his controlling interest in Sanfull Securities Limited.
3. Mr. Chan Kai Yu, Martin was to be interested in 2,574,000 shares through his controlling interest in Wellfull Securities Company Limited.
4. Mr. Chan Hung Ti was to be interested in 2,574,000 shares through his controlling interest in Troopers Securities Limited.
5. Mr. Cheung Wah Fung, Christopher was to be interested in 2,574,000 shares through his controlling interest in Christfund Securities Limited.
6. Mr. Espina Anthony was to be interested in 2,574,000 shares through his controlling interest in Goldride Securities Limited.
7. Mr. Lee Jor Hung was to be interested in 2,574,000 shares through his controlling interest in DL Brokerage Limited.
8. Mr. Wong Wai Sum was to be interested in 2,574,000 shares through his controlling interest in Hing Wong Securities Limited.

Directors' Report

DIRECTORS' INTERESTS IN SHARES *(continued)*

Other than as disclosed above, none of the Directors or chief executives, nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SHARE OPTIONS

The Company operates two share option schemes, namely the Share Option Scheme and the Pre-IPO Share Option Plan, under which the participants are entitled to benefit in respect of their services provided to the Group. Particulars of these share option schemes are further set out in note 22 to the financial statements.

The number of shares in respect of which options may be granted under the Share Option Scheme and the Pre-IPO Share Option Plan is not permitted to exceed 30% of the shares of the Company in issue from time to time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue during the twelve months before the date of grant, without prior approval from the Company's shareholders.

Under the Pre-IPO Share Option Plan, the Board of Directors (the "Board") has granted options comprising a total of 20,592,000 underlying shares to the following Executive Directors at a subscription price of approximately HK\$0.019 per share:

Name of Executive Director	No. of options granted and outstanding as at 31st December, 2002
Lee Wai Hung, Alan	10,296,000
So Kin Wing	5,148,000
Yuen Yeung Ngam <i>(Note)</i>	5,148,000
	<hr/>
	20,592,000
	<hr/> <hr/>

Note: Mr. Yuen Yeung Ngam resigned as an Executive Director of the Company on 30th November, 2002 and the options lapsed on 28th February, 2003, which was 3 months after the resignation.

No options were granted under the Share Option Scheme during the year.

Directors' Report

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Other than the share option schemes as described above and in note 22 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors, nor the chief executive, nor any of their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than as disclosed in note 24 to the financial statements, there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules and no contract of significance, to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

The Directors (including the Independent Non-executive Directors) are of the view that the transactions referred to above had been entered into in the ordinary course of business of the Group, on normal commercial terms, and the transactions were fair and reasonable in so far as the Company and its shareholders taken as a whole are concerned.

Other than as disclosed above, no contract of significance to which the Company or any of the subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that no persons had an interest of 10% or more in the issued share capital of the Company.

Directors' Report

INTEREST IN COMPETITORS

The following companies in which certain Directors of the Company hold controlling interests are engaged in securities-related and securities margin financing business and are therefore competing with the Group in this aspect of its business.

Name of company	Name of Director with controlling interests
Lee Tat & Company	Cheng Chi Lam
Luen Fat Securities Company Limited	Yue Wai Keung
Sanfull Securities Limited	Chan Henry
Wellfull Securities Company Limited	Chan Kai Yu, Martin
Troopers Securities Limited	Chan Hung Ti
Christfund Securities Limited	Cheung Wah Fung, Christopher
Goldride Securities Limited	Espina Anthony
DL Brokerage Limited	Lee Jor Hung
Hing Wong Securities Limited	Wong Wai Sum

SPONSOR'S INTERESTS

As updated and notified by UOB Asia (Hong Kong) Limited (the "Sponsor") and save as disclosed below, neither the Sponsor nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any material interests in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31st December, 2002.

Pursuant to the deed of novation dated 2nd December, 2002 as set out in the Company's announcement of the same date, the Sponsor has assumed the continuing sponsor role and will continue to act as the continuing sponsor to the Company for a term ending on 31st December, 2004. As a result, the Sponsor will receive a fee for the provision of such services.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the largest and the five largest customers of the Group accounted for approximately 15% and 53% of the Group's turnover respectively. Two suppliers of the Group accounted for 100% of the Group's cost of services with the largest supplier accounting for approximately 98% of such cost. Mr. Yue Wai Keung, being a Director of the Company, has a shareholding interest in one of the five largest customers of the Group. Other than as disclosed, none of the Directors, their associates or shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) have any interest in the customers or suppliers disclosed above.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Directors' Report

CORPORATE GOVERNANCE

The Company has complied from its listing date to 31st December, 2002 with rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee comprises four members, being Mr. Chung Shui Ming, Timpson, Mr. Tsui Yiu Wa, Alec and Mr. Cheng Mo Chi, Independent Non-executive Directors, and Mr. Lee Yiu Sun, a Vice Chairman and a Non-executive Director. During the year, the audit committee met four times.

The audit committee has reviewed the financial statements of the Group for the year ended 31st December, 2002 and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure has been made in respect thereof. It has also reviewed the financial reporting process and the adequacy and effectiveness of the internal control system of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENTS

Particulars of significant post balance sheet events of the Group are set out in note 30 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Seto John Gin Chung
Chairman

Hong Kong, 21st March, 2003

Auditors' Report

TO THE MEMBERS OF STOCKMARTNET HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 27 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

21st March, 2003

Consolidated Income Statement

For the Year ended 31st December, 2002

	Notes	2002 HK\$	2001 HK\$
Turnover	4	1,764,834	521,030
Other revenue	6	935,937	300,824
Amortisation of intangible asset		(40,800)	–
Depreciation of property and equipment		(436,133)	(206,464)
Internet infrastructure development expenses		–	(2,384,500)
Operating expenses for trading platform services		(4,246,328)	(406,527)
Provision of compensation for termination of a server agreement	30(1)	(800,000)	–
Staff costs, including directors' remuneration		(14,193,707)	(10,244,957)
Other operating expenses		(5,630,295)	(3,062,296)
Loss before taxation	7	(22,646,492)	(15,482,890)
Taxation	10	–	–
Net loss for the year		(22,646,492)	(15,482,890)
Loss per share – basic and diluted	11	(3.00) cents	(3.05) cents

Consolidated Balance Sheet

At 31st December, 2002

	Notes	2002 HK\$	2001 HK\$
Non-current assets			
Property and equipment	12	2,486,491	326,226
Intangible asset	13	1,183,200	–
Statutory deposits	14	355,000	–
		4,024,691	326,226
Current assets			
Deferred expenditure	16	–	9,973,577
Trade receivables	17	6,236,325	431,729
Other amounts receivable, prepayments and deposits		3,151,981	540,911
Bank balances and cash		46,244,220	266,831
		55,632,526	11,213,048
Current liabilities			
Trade payables	18	1,814,752	406,527
Other amounts payable and accrued charges		3,566,990	17,462,814
		5,381,742	17,869,341
Net current assets (liabilities)		50,250,784	(6,656,293)
Net assets (liabilities)		54,275,475	(6,330,067)
Capital and reserves			
Share capital	20	7,648,860	5,080,140
Share premium		80,974,438	291,124
Special reserve	21	4,778,740	4,778,740
Accumulated losses		(39,126,563)	(16,480,071)
Total capital and reserves		54,275,475	(6,330,067)

The financial statements on pages 27 to 53 were approved and authorised for issue by the Board of Directors on 21st March, 2003 and are signed on its behalf by:

Lee Wai Hung, Alan
DIRECTOR

So Kin Wing
DIRECTOR

Balance Sheet

At 31st December, 2002

	Notes	2002 HK\$	2001 HK\$
Non-current assets			
Property and equipment	12	1,230,337	–
Investments in subsidiaries	15	4,771,260	4,771,260
		<u>6,001,597</u>	<u>4,771,260</u>
Current assets			
Deferred expenditure	16	–	9,973,577
Other amounts receivable, prepayments and deposits		426,767	–
Amounts due from subsidiaries	19	42,690,314	–
Bank balances		6,139,923	–
		<u>49,257,004</u>	<u>9,973,577</u>
Current liabilities			
Other amounts payable and accrued charges		656,495	9,335,425
Amounts due to subsidiaries		2,956,012	942,626
		<u>3,612,507</u>	<u>10,278,051</u>
Net current assets (liabilities)		<u>45,644,497</u>	<u>(304,474)</u>
Net assets		<u>51,646,094</u>	<u>4,466,786</u>
Capital and reserves			
Share capital	20	7,648,860	5,080,140
Share premium		80,974,438	291,124
Accumulated losses		(36,977,204)	(904,478)
Total capital and reserves		<u>51,646,094</u>	<u>4,466,786</u>

Lee Wai Hung, Alan
DIRECTOR

So Kin Wing
DIRECTOR

Statements of Changes in Equity

For the Year ended 31st December, 2002

	Share premium					
	Share	Stockmartnet	Company	Special	Accumulated	Total
	capital	Holdings (BVI)	Limited	reserve	losses	
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP						
At 1st January, 2001	-	242,600	-	-	(997,181)	(754,581)
Issue of shares on conversion of convertible notes	-	4,536,140	-	-	-	4,536,140
Issue of shares on the corporate reorganisation	5,080,140	-	291,124	-	-	5,371,264
Transfer to special reserve on corporate reorganisation	-	(4,778,740)	-	4,778,740	-	-
Net loss for the year	-	-	-	-	(15,482,890)	(15,482,890)
At 1st January, 2002	5,080,140	-	291,124	4,778,740	(16,480,071)	(6,330,067)
Issue of shares at premium on listing	2,530,800	-	93,639,600	-	-	96,170,400
Share issue expenses	-	-	(13,392,366)	-	-	(13,392,366)
Issue of shares to purchase a trading right in The Stock Exchange of Hong Kong Limited	37,920	-	436,080	-	-	474,000
Net loss for the year	-	-	-	-	(22,646,492)	(22,646,492)
At 31st December, 2002	7,648,860	-	80,974,438	4,778,740	(39,126,563)	54,275,475
THE COMPANY						
Issue of shares on the corporate reorganisation	5,080,140	-	291,124	-	-	5,371,264
Net loss for the period	-	-	-	-	(904,478)	(904,478)
At 1st January, 2002	5,080,140	-	291,124	-	(904,478)	4,466,786
Issue of shares at premium on listing	2,530,800	-	93,639,600	-	-	96,170,400
Share issue expenses	-	-	(13,392,366)	-	-	(13,392,366)
Issue of shares to purchase a trading right in The Stock Exchange of the Hong Kong Limited	37,920	-	436,080	-	-	474,000
Net loss for the year	-	-	-	-	(36,072,726)	(36,072,726)
At 31st December, 2002	7,648,860	-	80,974,438	-	(36,977,204)	51,646,094

Consolidated Cash Flow Statement

For the Year ended 31st December, 2002

	2002 HK\$	2001 HK\$
OPERATING ACTIVITIES		
Loss before taxation	(22,646,492)	(15,482,890)
Adjustments for:		
Depreciation of property and equipment	436,133	206,464
Amortisation of intangible asset	40,800	–
Loss on disposal of property and equipment	5,118	–
Interest income	(843,371)	(186,235)
Operating cash flows before movements in working capital	(23,007,812)	(15,462,661)
Increase in statutory deposits	(355,000)	–
Increase in trade receivables	(5,804,596)	(431,729)
Decrease (increase) in deferred expenditure	9,973,577	(9,973,577)
Increase in other amounts receivable, deposits and prepayments	(2,611,070)	(427,073)
Increase in bank trust account	(642,445)	–
Increase in trade payables	1,408,225	406,527
(Decrease) increase in other amounts payable and accrued charges	(13,895,824)	16,495,274
Cash used in operations	(34,934,945)	(9,393,239)
Interest received	843,371	186,235
NET CASH USED IN OPERATING ACTIVITIES	(34,091,574)	(9,207,004)
INVESTING ACTIVITIES		
Purchase of a trading right	(750,000)	–
Purchase of property and equipment	(2,601,516)	(513,992)
NET CASH USED IN INVESTING ACTIVITIES	(3,351,516)	(513,992)
FINANCING ACTIVITIES		
Net proceeds from issue of shares	82,778,034	600,004
Net proceeds from issue of convertible notes	–	900,000
Payment on redemption of a convertible note	–	(50,000)
NET CASH GENERATED FROM FINANCING ACTIVITIES	82,778,034	1,450,004

Consolidated Cash Flow Statement

For the Year ended 31st December, 2002

	2002	2001
	HK\$	HK\$
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	45,334,944	(8,270,992)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	266,831	8,537,823
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	45,601,775	266,831
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	46,244,220	266,831
Less: Trust account balance	(642,445)	–
	45,601,775	266,831

Notes to the Financial Statements

For the Year ended 31st December, 2002

1. CORPORATE REORGANISATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company was incorporated on 24th May, 2001 as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands.

The Company is an investment holding company. Its subsidiaries are principally engaged in the provision of financial services including brokerage, securities margin financing and provision of a trading platform.

Pursuant to the Corporate Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group on 17th December, 2001 by principally issuing shares in exchange for the entire issued share capital of Stockmartnet Holdings (BVI) Limited ("Stockmartnet BVI"). Details of the Corporate Reorganisation are set out in the Prospectus dated 8th January, 2002 issued by the Company.

The shares of the Company were listed on GEM with effect from 11th January, 2002.

The Group resulting from the Corporate Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements for the year ended 31st December, 2001 have been prepared using the principles of merger accounting in accordance with Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reorganisations" issued by the Hong Kong Society of Accountants.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised SSAPs issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest received, which was previously presented under a separate heading, is classified as an operating cash flow.

Notes to the Financial Statements

For the Year ended 31st December, 2002

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE *(continued)*

Employee Benefits

In the current year, the Group has adopted SSAP 34 "Employee benefits," which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit scheme, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31st December each year.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Commission income is recognised on a trade date basis when the service is rendered, the amount for which can be reliably estimated and it is probable that it will be received.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Fees and service charges arising from the provision of a trading platform are recognised when services are rendered.

Advertising revenue is recognised when services are provided.

Notes to the Financial Statements

For the Year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and equipment

Property and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property and equipment over their estimated useful lives at the following rates per annum:

Leasehold improvements	Over the term of leases
Office equipment and furniture	33.33%
Computer equipment	33.33%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Intangible asset

Intangible asset is measured initially at cost and amortised on a straight-line basis over its estimated useful life.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Notes to the Financial Statements

For the Year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit and loss for the year.

Operating leases

Rentals payable under operating lease are charged to the income statement on a straight-line basis over the relevant lease terms.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Notes to the Financial Statements

For the Year ended 31st December, 2002

4. TURNOVER

Turnover represents the net invoiced value for the fees and service charges in relation to the provision of a trading platform and commission income and interest income arising from brokerage and securities margin financing business for the year, and is analysed as follows:

	2002	2001
	HK\$	HK\$
Connection and set up fees	432,768	230,327
Transaction fees	202,060	74,618
Monthly service charges	614,855	216,085
Real time quote service charges	164,289	–
Commission income	325,455	–
Interest income from clients	25,407	–
	<hr/> 1,764,834 <hr/>	<hr/> 521,030 <hr/>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into 2 main operating divisions, namely provision of a trading platform and brokerage and securities margin financing. These divisions are the basis on which the Group reports its primary segment information.

The principal activities of the divisions are as follows:

- Provision of a trading platform
- Brokerage and securities margin financing

Notes to the Financial Statements

For the Year ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Income statement for the year ended 31st December, 2002

	Provision of a trading platform HK\$	Brokerage and securities margin financing HK\$	Total HK\$
REVENUE			
Turnover	1,413,972	350,862	1,764,834
RESULTS			
Segment loss	(7,745,705)	(788,254)	(8,533,959)
Net unallocated expenses			(14,112,533)
Loss before taxation			(22,646,492)
Taxation			-
Net loss for the year			(22,646,492)

Income statement for the year ended 31st December, 2001

	Provision of a trading platform HK\$	Brokerage and securities margin financing HK\$	Total HK\$
REVENUE			
Turnover	521,030	-	521,030
RESULTS			
Segment loss	(7,666,093)	-	(7,666,093)
Net unallocated expenses			(7,816,797)
Loss before taxation			(15,482,890)
Taxation			-
Net loss for the year			(15,482,890)

Notes to the Financial Statements

For the Year ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Balance sheet as at 31st December, 2002

	Provision of a trading platform HK\$	Brokerage and securities margin financing HK\$	Total HK\$
ASSETS			
Segment assets	582,826	49,267,068	49,849,894
Unallocated assets			9,807,323
			<u>59,657,217</u>
LIABILITIES			
Segment liabilities	1,729,845	2,615,710	4,345,555
Unallocated liabilities			1,036,187
			<u>5,381,742</u>

Balance sheet as at 31st December, 2001

	Provision of a trading platform HK\$	Brokerage and securities margin financing HK\$	Total HK\$
ASSETS			
Segment assets	1,376,652	–	1,376,652
Unallocated assets			10,162,622
			<u>11,539,274</u>
LIABILITIES			
Segment liabilities	8,299,816	–	8,299,816
Unallocated liabilities			9,569,525
			<u>17,869,341</u>

Notes to the Financial Statements

For the Year ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Other information for the year ended 31st December, 2002

	Provision of a trading platform HK\$	Brokerage and securities margin financing HK\$	Unallocated balance HK\$	Total HK\$
Additions of property and equipment	–	1,108,303	1,493,213	2,601,516
Addition of intangible asset	–	1,224,000	–	1,224,000
Depreciation and amortisation	140,055	74,002	262,876	476,933
Allowance for bad and doubtful debts	186,578	–	–	186,578

Other information for the year ended 31st December, 2001

	Provision of a trading platform HK\$	Brokerage and securities margin financing HK\$	Total HK\$
Additions of property and equipment	513,992	–	513,992
Depreciation	206,464	–	206,464

As all of the Group's turnover and loss before taxation are derived from Hong Kong, no analysis of geographical segments has been disclosed in the financial statements.

6. OTHER REVENUE

	2002 HK\$	2001 HK\$
Advertising income	10,000	107,499
CCASS fee income	2,258	–
Interest income on bank deposits	817,964	186,235
Sundry income	105,715	7,090
	935,937	300,824

Notes to the Financial Statements

For the Year ended 31st December, 2002

7. LOSS BEFORE TAXATION

	2002	2001
	HK\$	HK\$
Loss before taxation has been arrived at after charging:		
Auditors' remuneration	275,000	80,000
Loss on disposal of property and equipment	5,118	–
Operating lease rentals in respect of rented office premises	984,707	902,640
Allowance for bad and doubtful debts	186,578	–
(Reversal of) provision for portal designer fee	(552,000)	702,000
	<hr/> <hr/>	

8. DIRECTORS' REMUNERATION

	2002	2001
	HK\$	HK\$
Directors' fees paid to Independent Non-executive Directors	300,000	–
Other emoluments paid to Executive Directors:		
Salaries and other benefits	7,900,000	2,473,337
Contributions to Mandatory Provident Fund Scheme	153,500	123,667
Bonus	–	4,385,000
	<hr/>	
Total emoluments	8,353,500	6,982,004
	<hr/> <hr/>	

During the year, the amounts disclosed above were paid to three Executive Directors of HK\$4,612,500 (2001: HK\$4,180,000), HK\$2,211,000 (2001: HK\$2,032,000) and HK\$1,230,000 (2001: HK\$770,004) respectively.

During the year, no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors waived any remuneration during the year.

Notes to the Financial Statements

For the Year ended 31st December, 2002

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2001: three) were Directors of the Company whose emoluments are included in note 8 above. The emoluments of the remaining two (2001: two) individuals were as follows:

	2002	2001
	HK\$	HK\$
Salaries and other benefits	1,585,355	807,355
Contributions to Mandatory Provident Fund Scheme	51,368	40,368
	1,636,723	847,723

Their emoluments were within the following bands:

	2002	2001
	No. of	No. of
	employees	employees
Nil to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	-

10. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for the year.

Details of potential deferred taxation not provided for are set out in note 23.

11. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31st December, 2002 together with the comparative figures for 2001 are as follows:

	2002	2001
Net loss for the year	HK\$22,646,492	HK\$15,482,890
Weight average number of ordinary share for the purpose of basic loss per share	754,534,307	508,014,000

The computation of diluted loss per share has not assumed the exercise of options outstanding during the year because their exercise would reduce loss per share.

Notes to the Financial Statements

For the Year ended 31st December, 2002

12. PROPERTY AND EQUIPMENT

	Leasehold improvements HK\$	Office equipment and furniture HK\$	Computer equipment HK\$	Total HK\$
THE GROUP				
COST				
At 1st January, 2002	118,318	423,720	–	542,038
Additions	958,252	565,306	1,077,958	2,601,516
Disposals	(118,318)	(10,670)	–	(128,988)
At 31st December, 2002	958,252	978,356	1,077,958	3,014,566
DEPRECIATION				
At 1st January, 2002	118,318	97,494	–	215,812
Provided for the year	146,830	204,337	84,966	436,133
Eliminated on disposals	(118,318)	(5,552)	–	(123,870)
At 31st December, 2002	146,830	296,279	84,966	528,075
NET BOOK VALUES				
At 31st December, 2002	811,422	682,077	992,992	2,486,491
At 31st December, 2001	–	326,226	–	326,226
THE COMPANY				
COST				
Additions and at 31st December, 2002	958,252	230,729	304,232	1,493,213
DEPRECIATION				
Provided for the year and at 31st December, 2002	(146,830)	(52,572)	(63,474)	(262,876)
NET BOOK VALUES				
At 31st December, 2002	811,422	178,157	240,758	1,230,337

Notes to the Financial Statements

For the Year ended 31st December, 2002

13. INTANGIBLE ASSET

	THE GROUP HK\$
COST	
Addition and at 31st December, 2002	1,224,000
AMORTISATION	
Provided for the year and at 31st December, 2002	(40,800)
NET BOOK VALUE	
At 31st December, 2002	1,183,200

The intangible asset represents one trading right which was purchased from another participant of the Stock Exchange. The cost is amortised over a period of 5 years.

14. STATUTORY DEPOSITS

	THE GROUP	
	2002	2001
	HK\$	HK\$
Hong Kong Securities Clearing Company Limited ("HKSCC")		
– contribution fund deposit	50,000	–
– admission fee deposit	50,000	–
The Stock Exchange		
– compensation fund deposit	50,000	–
– fidelity fund deposit	50,000	–
– stamp duty deposit	5,000	–
Securities and Futures Commission (the "SFC")		
– deposits for dealing directors	150,000	–
	355,000	–

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY 2002 & 2001 HK\$
Unlisted shares, at cost	4,771,260

The cost is based on the value of the underlying assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Corporate Reorganisation.

Notes to the Financial Statements

For the Year ended 31st December, 2002

15. INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of the Company's subsidiaries as at 31st December, 2002 are as follows:

Name of company	Place and incorporation/ operation	Class of share held	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Stockmartnet Holdings (BVI) Limited	The British Virgin Islands	Ordinary	100%	–	Investment holding
Datafield Limited	Hong Kong	Ordinary	–	100%	Inactive
Stockmartnet Limited	Hong Kong	Ordinary	–	100%	The business of provision of a trading platform was ceased since December 2002
Stockmartnet Domain Names Limited	The British Virgin Islands	Ordinary	–	100%	Holding of domain names
Stockmartnet Capital Limited	Hong Kong	Ordinary	–	100%	Not yet commenced business
Stockmartnet Financial Services Limited (Formerly known as Stockmartnet Finance Limited)	Hong Kong	Ordinary	–	100%	Securities dealing and margin financing
Stockmartnet Corporate Finance Limited	Hong Kong	Ordinary	–	100%	Not yet commenced business
Stockmartnet Processing Services Limited	Hong Kong	Ordinary	–	100%	Provision of a trading platform
Stockmartnet Technology Limited	Hong Kong	Ordinary	–	100%	Operation of financial portal
Stockmartnet Websites Limited	The British Virgin Islands	Ordinary	–	100%	Not yet commenced business
Stockmartnet Nominee Limited	Hong Kong	Ordinary	–	100%	Not yet commenced business

Notes to the Financial Statements

For the Year ended 31st December, 2002

16. DEFERRED EXPENDITURE

THE GROUP AND THE COMPANY

The deferred expenditure represented the various expenses related to the listing of the shares of the Company on GEM, which were incurred as at the balance sheet date of the previous year but deferred to net off against the proceeds received from the issue of new ordinary shares on listing during the year.

17. TRADE RECEIVABLES

	THE GROUP	
	2002	2001
	HK\$	HK\$
Margin client receivables	4,332,702	–
Other client receivable	470,755	–
Amount due from a clearing house (net)	1,226,190	–
Other trade receivables	206,678	431,729
	6,236,325	431,729

Margin client receivables are repayable on demand, bear interest at prevailing market rates and are secured by clients' securities that are listed on the Stock Exchange with a market value of approximately HK\$37,718,000 as at 31st December, 2002 (2001: nil). No aged analysis is disclosed for margin client receivables as in the opinion of the directors, the aged analysis does not give additional value in view of the nature of business of share margin financing.

The settlement terms of other client receivable and amount due from a clearing house are one or two days after the trade execution date. The age of these balances is within 30 days.

The following is an aged analysis of other trade receivables at the balance sheet date:

	THE GROUP	
	2002	2001
	HK\$	HK\$
0 – 30 days	37,270	379,579
31 – 60 days	–	52,150
61 – 90 days	13,572	–
Over 90 days	155,836	–
	206,678	431,729

Notes to the Financial Statements

For the Year ended 31st December, 2002

18. TRADE PAYABLES

	THE GROUP	
	2002	2001
	HK\$	HK\$
Margin client payables	505,835	–
Other client payables	708,566	–
Other trade payables	600,351	406,527
	1,814,752	406,527

Margin client payables are repayable on demand and bear interest at prevailing market rates. No aged analysis is disclosed for margin client payables as in the opinion of the Directors, the aged analysis does not give additional value in view of the nature of business of securities margin financing.

The settlement term of other client payable is two days after the trade execution date. The age of these balances is within 30 days.

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2002	2001
	HK\$	HK\$
0 – 30 days	18,829	171,953
31 – 60 days	276,600	61,132
61 – 90 days	304,922	173,442
	600,351	406,527

19. AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$	HK\$
Amounts due from subsidiaries	64,690,314	–
Allowance	(22,000,000)	–
	42,690,314	–

During the year, the Company reviewed the recoverability of amounts due from subsidiaries and an amount of HK\$22,000,000, which represents the written-off of the advances provided to subsidiaries for their daily operations, has been recognised to reduce the carrying amount to the estimated recoverable amounts.

Notes to the Financial Statements

For the Year ended 31st December, 2002

20. SHARE CAPITAL

	Number of shares		2002 HK\$	2001 HK\$
	2002	2001		
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning of year	10,000,000,000	39,000,000	100,000,000	390,000
Increase during the year	–	9,961,000,000	–	99,610,000
At end of year	10,000,000,000	10,000,000,000	100,000,000	100,000,000
Issued and fully paid:				
At beginning of year	508,014,000	–	5,080,140	–
Allotted and issued on 29th May, 2001	–	1	–	–
Issue of shares on the Corporate Reorganisation	–	508,013,999	–	5,080,140
Issue on public flotation	253,080,000	–	2,530,800	–
Issue for purchase of a trading right	3,792,000	–	37,920	–
At end of year	764,886,000	508,014,000	7,648,860	5,080,140

On 11th January, 2002, the Company allotted and issued 253,080,000 new ordinary shares of HK\$0.01 each at HK\$0.38 per share for an aggregate consideration of HK\$96,170,400 to the public.

On 26th November, 2002, the Company allotted and issued 3,792,000 new ordinary shares of HK\$0.01 each at HK\$0.125 per share to First Sign Securities Limited for a consideration of HK\$474,000 to finance part of the consideration for the acquisition of a trading right in the Stock Exchange by a subsidiary.

21. SPECIAL RESERVE

The special reserve of the Group represents the difference between the nominal amount of the shares issued by the Company and the aggregate of the nominal amount and share premium of the issued share capital of Stockmartnet (BVI) pursuant to the Corporate Reorganisation.

Notes to the Financial Statements

For the Year ended 31st December, 2002

22. SHARE OPTION SCHEMES

(i) Share Option Scheme

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 17th December, 2001. The purpose of the Share Option Scheme is to provide the people and the parties working for the interest of the Group with an opportunity to obtain equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an incentive to work better for the interest of the Group. Under the Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

HK\$1 is payable on the acceptance of the option per grant. Options may generally be exercised at any time during a period to be notified by the Board to each grantee provided that the period within which the option must be exercised shall not be more than 10 years from the date of grant of the share option.

The exercise price is determined by the Board, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The Share Option Scheme will remain valid for a period of 10 years commencing on 17th December, 2001.

No option has been granted or agreed to be granted under the Share Option Scheme from its date of adoption.

(ii) Pre-IPO Share Option Plan

The purpose of the Pre-IPO Share Option Plan was to recognise and motivate the contribution of certain directors and employees of the Group to the growth of the Group and/or to the listing of the Company's shares on GEM.

Pursuant to the Pre-IPO Share Option of the Company adopted on 17th December, 2001, the Board has granted options comprising a total of 20,592,000 underlying shares to the Executive Directors of the Company and its subsidiaries at a subscription price of approximately HK\$0.019 per share, representing approximately a 94.9% discount to the issue price pursuant to the Company's listing on GEM.

Options granted under the Pre-IPO Share Option Plan may be exercised at any time after the two-year lock-up period in accordance with the term of the Pre-IPO Share Option Plan. No further options will be offered or granted upon listing of the shares of the Company on GEM and no options were exercised from the date of grant to 31st December, 2002.

Notes to the Financial Statements

For the Year ended 31st December, 2002

23. UNPROVIDED DEFERRED TAXATION

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

At 31st December, 2002, the major components of unprovided deferred tax asset (liability) are as follows:

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	HK\$	HK\$	HK\$	HK\$
Tax effect of timing difference attributable to:				
Estimated taxation losses	6,462,063	2,543,099	2,452,146	144,716
Excess of tax allowances over depreciation	(199,490)	(27,997)	(37,853)	–
	6,262,573	2,515,102	2,414,293	144,716

The components of unprovided deferred tax credit (charge) for the year are as follows:

	THE GROUP	
	2002	2001
	HK\$	HK\$
Tax effect of timing difference attributable to:		
Taxation losses arising	3,918,964	2,479,001
Excess of tax allowances over depreciation	(171,493)	(27,489)
	3,747,471	2,451,512

24. RELATED PARTY TRANSACTIONS

During the year, an amount of rentals totaling to HK\$150,000 (2001: HK\$600,000) inclusive of rates, utilities, management fee and the use of office facilities was paid to a company in which a Non-executive Director of the Company has a beneficial interest. As at the balance sheet date, rentals of HK\$50,000 (2001: HK\$500,000) remained unpaid and was included in other amounts payable and accrued charges. The price was determined between the Company and the Landlord with reference to the prevailing market rate.

Notes to the Financial Statements

For the Year ended 31st December, 2002

24. RELATED PARTY TRANSACTIONS *(continued)*

During the year, the Group has received fees income and service charges in relation to the operation of a trading engine of HK\$394,391 (2001: HK\$197,858) from companies in which certain non-executive directors of the Company have beneficial interests. At the balance sheet date, HK\$194,600 (2001: HK\$76,782) remained outstanding and was included in trade receivables. The transactions were carried out on terms similar to those applicable to transactions with unrelated parties.

At 31st December, 2001, deposits of HK\$900,000 received from companies, in which certain non-executive directors of the Company have beneficial interests, for ordinary commercial purpose were included in other creditors and accrued charges. The amounts were unsecured, non-interest bearing and have been fully settled after the balance sheet date.

25. NON-CASH TRANSACTION

During the year, the Company issued 3,792,000 ordinary shares at HK\$0.125 each as part of the consideration for the purchase of the trading right in the Stock Exchange at a total consideration of HK\$1,224,000.

26. CONTINGENT LIABILITY

The Company has given a guarantee to a bank in respect of general facility of HK\$90,000,000 (2001: nil) granted to one of its subsidiaries. At the balance sheet date, such facility was not utilised by the subsidiary (2001: nil).

27. LEASES COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payment under non-cancellable operating leases in respect of rented office premises which fall due as follows:

	THE GROUP		THE COMPANY	
	2002 HK\$	2001 HK\$	2002 HK\$	2001 HK\$
Within one year	1,580,157	75,660	1,580,157	–
In the second to fifth years inclusive	1,039,987	–	1,039,987	–
	2,620,144	75,660	2,620,144	–

Leases are negotiated for an average period of two years.

Notes to the Financial Statements

For the Year ended 31st December, 2002

28. OTHER COMMITMENTS

(1) Financial commitments

On 10th March, 2001, the Group entered into an agreement (the "Server Agreement") with a service provider in respect of the development of server hosting environment and related infrastructure, thereby incurred commitments in relation to an one-time connection set up fee payable by instalments up to October 2002. The outstanding balance at 31st December, 2001 amounted to HK\$390,000.

According to the Server Agreement, a minimum monthly charge would start to be payable by the Group seven months after 10th March, 2001, the commencement date of the Agreement, or upon the completion of the user acceptance testing of the relevant applicable systems, whichever is later, for the following seven years. The total commitment of these charges amounted to approximately HK\$217,157,000.

During the year, due to certain commercial reasons, the Group has started negotiation with the service provider to terminate the Server Agreement. On 8th January, 2003, the Group executed a mutual release agreement with the service provider as mentioned in note 30(1). In the opinion of the Directors, the proposed termination have a favourable impact upon the Group's financial position.

(2) Capital commitments

- (i) On 6th December, 2002, the Group has entered into a conditional agreement to procure a nominee to acquire the Stock Exchange Trading Right held by CU Securities Limited within the three months period from the date of the agreement, failing which the Group shall acquire the trading right itself for HK\$1,500,000 subject to the approval of the Stock Exchange. Pursuant to this agreement, as at the balance sheet date, the Group has given to CU Securities Limited HK\$1,500,000 as a deposit.
- (ii) On 6th December, 2002, the Group entered into a sale and purchase agreement (the "Agreement") with Great Concept Profits Limited to purchase the entire issued share capital of CU Futures Limited, a subsidiary of Great Concept Profits Limited. The consideration of the Agreement was HK\$2,400,000 plus the net tangible assets as stipulated in the Agreement. The completion of the Agreement is subject to the written approval or consent by the Hong Kong Futures Exchanges Limited (the "HKFE") and the SFC. At the balance sheet date, HK\$800,000 was paid to the Great Concept Profits Limited as a deposit.

Notes to the Financial Statements

For the Year ended 31st December, 2002

29. RETIREMENT BENEFITS SCHEME

The Group participates in a Mandatory Provident Fund Scheme (the "Scheme") established under the Mandatory Provident Fund Ordinance in December 2000 for qualifying employees of the Group in Hong Kong. The contributions are calculated at 5% of the salaries for these eligible employees. The amount of employer's contribution to the Mandatory Provident Fund Scheme for the year was approximately HK\$434,000 (2001: HK\$274,000). The Group's contributions to the Scheme are expensed as incurred and, where applicable, are reduced by voluntary contributions forfeited by those employees who leave the scheme, prior to vesting fully in the contributions. At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the Scheme and available to reduce the contribution payable in future years was approximately HK\$90,000 (2001: Nil).

30. POST BALANCE SHEET EVENTS

- (1) On 8th January, 2003, the Group executed a mutual release agreement with the service provider as mentioned in note 28(1). Pursuant to the mutual release agreement, the Group paid a sum of HK\$800,000 to the service provider. From 9th January, 2003 onward, neither the Group nor the service provider will have any further obligations or liabilities towards each other under the Server Agreement, whether accrued before, on or after that date.
- (2) In March 2003, the Group has started the proceedings to apply for the transfer of the Stock Exchange Trading Right as mentioned in note 28(2)(i).
- (3) On 3rd March, 2003, the transaction as mentioned in note 28(2)(ii) was approved by the HKFE and the SFC.
- (4) On 8th January, 2003, two subsidiaries of the Group, namely Stockmartnet Processing Services Limited ("Stockmartnet Processing") and Stockmartnet Financial Services Limited ("Stockmartnet Financial"), entered into two agreements ("Standard Services Agreement" and "Enhanced Services Agreement") with 2GoTrade.com Limited ("2Go Trade") to enable the Group to operate a trading engine and trade securities, futures and options through the technology platform provided by 2Go Trade.

The Standard Services Agreement does not carry minimum monthly charge. Stockmartnet Processing does not have any future financial commitments and the fee payable will depend on the level of usage with back-to-back commitments from Stockmartnet Processing's clients.

According to the Enhanced Services Agreement, Stockmartnet Financial is obliged to pay minimum charges totalling HK\$3,600,000, payable in the sums of HK\$600,000, HK\$720,000, HK\$1,020,000 and HK\$1,260,000 respectively, over the four-year initial term of the agreement, which will end on 30th November, 2006 and is subject to renewal upon expiry by mutual agreement between 2Go Trade and Stockmartnet Financial.

Financial Summary

For the Year ended 31st December, 2002

The following is a summary of the results of the Group for the relevant periods. The period covered in 2000 was less than twelve months because Stockmartnet BVI, the then holding company of the Group, was incorporated on 8th March, 2000.

	1.1.2002 to 31.12.2002 HK\$	1.1.2001 to 31.12.2001 HK\$	8.3.2000 to 31.12.2000 HK\$
RESULTS			
Turnover	1,764,834	521,030	–
Loss before taxation	(22,646,492)	(15,482,890)	(997,181)
Taxation	–	–	–
Loss attributable to shareholders	(22,646,492)	(15,482,890)	(997,181)
	2002 HK\$	2001 HK\$	2000 HK\$
ASSETS AND LIABILITIES			
Total assets	59,657,217	11,539,274	8,671,338
Total liabilities	(5,381,742)	(17,869,341)	(9,168,519)
Surplus (deficit)	54,275,475	(6,330,067)	(497,181)