



金融社控股有限公司
STOCKMARTNET HOLDINGS LTD.
(incorporated in the Cayman Islands with limited liability)



STOCKMARTNET

Annual Report **2004**

CONTENTS

Corporate Information	3
Chairman's Statement	4
Management Discussion and Analysis	5
Directors and Senior Management Profile	6
Directors' Report	10
Auditors' Report	20
Consolidated Income Statement	21
Consolidated Balance Sheet	22
Balance Sheet	23
Statements of Changes in Equity	24
Consolidated Cash Flow Statement	25
Notes to the Financial Statements	26
Financial Summary	48

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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 of the Stock Exchange 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. GEM-listed issuers 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 issuers.

Pursuant to Chapter 36 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”), the Securities and Futures Commission (the “SFC”) regulates Stockmartnet Holdings Ltd. (the “Company”) in relation to the listing of its shares on GEM of the Stock Exchange. The SFC and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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

So Kin Wing, FCPA, CA

COMPLIANCE OFFICER

So Kin Wing, FCPA, CA

QUALIFIED ACCOUNTANT

So Kin Wing, FCPA, CA

AUDIT COMMITTEE

Chung Shui Ming, Timpson
Tsui Yiu Wa, Alec
Lee Yiu Sun
Lee Jor Hung (Alternate to Lee Yiu Sun)

AUTHORISED REPRESENTATIVES

So Kin Wing, Lee Sing Kai, Albert

AUTHORISED PERSONS TO ACCEPT SERVICE OF PROCESS AND NOTICES

So Kin Wing, Lee Sing Kai, Albert

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Bank (Cayman) Limited
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
46th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

PRINCIPAL BANKER

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

AUDITORS

HLB Hodgson Impey Cheng

CHAIRMAN'S STATEMENT

The Board of Directors is pleased to report the audited results of Stockmartnet Holdings Ltd. (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2004.

BUSINESS REVIEW

Since the establishment of the Group's business in April 1999 and its successful listing on the GEM of the Stock Exchange in January, 2002, the Directors and management have worked steadfastly towards realizing their belief in the concept of an alliance of small and medium stockbrokers leveraging itself into a centralized value-added service provider and product distributor.

During this time, the industry has experienced abolishment of minimum commission, the unexpected impact of SARS and one of the longest continuous downturns in the Hong Kong economy. These unforeseen events have had a significant impact on a startup company with a revolutionary concept that is the Group. Although the Hong Kong economy has rebounded in recent months, the Group's further expansion has been curtailed by constraints on financial resources arising from a historically challenging operating environment.

Due to restrictions on financial resources, the Group has not been in a position to explore any new businesses or areas. Instead, the Company has continually reviewed its existing lines of business with a focus on maximizing efficiency in the return on available capital.

In December, 2004, the Board decided to discontinue its infrastructure brokering services in the new year as the market response and rate of return were not as positive as initially anticipated.

OUTLOOK

During the past year, the Company has sought to strengthen the Group's financial position to better avail itself of future business and expansion opportunities. To this end, on 4th February, 2005, the Company entered into a subscription agreement pursuant to which a subscriber agreed to subscribe for and the Company agreed to allot and issue an aggregate of 1,000 million shares at a subscription price of HK\$0.026 per subscription share. The details of the proposed subscription of new shares and the subscription agreement was disclosed in a joint announcement by the Company and the subscriber dated 23rd February, 2005. The Board of Directors believe that the resulting cash injection of HK\$26 million will significantly strengthen the Group's financial position of the Group. The estimated net proceeds of HK\$24 million from the subscription are intended to be applied as general working capital of the Group.

Finally, I would like to extend my sincere thanks and appreciation to our shareholders, my fellow Directors and our staff for their ongoing support and dedication to the Group over the past years.

Seto John Gin Chung

Chairman

Hong Kong, 24th March, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The turnover of the Group was approximately HK\$6,737,000 for the year ended 31st December, 2004 (2003: approximately HK\$5,320,000). This represented an increase of 27% from the previous year, and it was the result of the improvement in the investment market and economy. During the year, the Group continued to enforce and implement tight control measures on all expenses including in particular staff costs by further reducing headcount. As a result, the loss attributable to shareholders for the year ended 31st December, 2004 decreased to approximately HK\$10,758,000 from approximately HK\$16,964,000 during the corresponding period in 2003.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2004, the Group had total assets of approximately HK\$39,093,000 (2003: approximately HK\$53,219,000), including bank balances and cash of approximately HK\$24,864,000 (2003: approximately HK\$35,154,000). Save for borrowings incidental to the Group's margin financing business, the Group did not incur any bank overdraft or loan for the year ended 31st December, 2004. As at 31st December, 2004, 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 its own internal funding. With net current assets of approximately HK\$21,509,000, the Group remained in a financially liquid position as at 31st December, 2004 and could maintain the current line of business.

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

EMPLOYEES INFORMATION

As at 31st December, 2004, the Group had rationalized its workforce to 10 employees (2003: 19). For the year ended 31st December, 2004, the total staff costs amounted to approximately HK\$6,877,000 (2003: approximately HK\$10,931,000). The Group's remuneration policies are determined on the basis of the performance and experience of individual employees.

CAPITAL STRUCTURE

There was no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares. The Company and the Group have no borrowings and long-term debts.

SIGNIFICANT INVESTMENTS

For the year ended 31st December, 2004, the Group had made no significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES/FUTURE PLANS FOR MATERIAL INVESTMENTS

There were no material acquisitions and disposals of subsidiaries during the year. At present, the Company and the Group have no plans for material investments.

CHARGES ON GROUP ASSETS

As at 31st December, 2004, the Group did not have any charges on its assets.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 31st December, 2004.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

NON-EXECUTIVE DIRECTORS

SETO John Gin Chung, aged 56, 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 an Independent Non-executive Director of Kowloon Development Company Limited and China Everbright Limited. Mr. Seto was a Non-executive Director of Hong Kong Exchanges and Clearing Limited (“HKEx”) and Poly Investment Holdings Limited and was the Chief Executive of HSBC Broking Services (Asia) Limited. He was a Council Member of the Stock Exchange from 1994 to 2000 and was the first Vice Chairman from 1997 to 2000. Mr. Seto holds a Master of Business Administration degree from New York University, US and has over 30 years of experience in the securities and futures industry.

LEE Yiu Sun, aged 47, 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 Institute of Certified Public Accountant, and a Certified Public Accountant. Mr. Lee has over 16 years of experience in the securities and financial service sector.

YUE Wai Keung, aged 52, 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. He was a non-executive director of HKEx, 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 32 years of experience in the securities and futures industry.

CHAN Henry, aged 39, is a Non-executive Director of the Company and joined the Group in July 2000. He is the Managing Director of Sanfull Securities Limited since 2004. He is also an Independent Non-executive Director of Hengan International Group Company Limited and Luen Thai Holdings Limited. Mr. Chan is currently the Chairman of the Hong Kong Stockbrokers Association and a member of the 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 convener 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 18 years of experience in the securities and financial service sector.

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTORS *(continued)*

CHAN Kai Yu, Martin, aged 64, 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 committee member 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 39 years of experience in the securities and financial service sector.

CHAN Hung Ti, aged 54, 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 32 years of experience in the securities industry.

CHENG Chi Lam, aged 57, is a Non-executive Director of the Company and joined the Group in April 1999. He is the sole-proprietor of Lee Tat & Company and a director of DL Brokerage Limited. Mr. Cheng was 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 34 years of experience in the securities industry.

ESPINA, Anthony, aged 56, is a Non-executive Director of the Company and joined the Group in July 2000. He is the Managing Director of Goldride Securities Limited and a Vice-Chairman of the Hong Kong Stockbrokers Association. 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. He holds a Bachelor degree in Accounting and is an Associate Member of each of the Australian Society of Certified Practising Accountants and the Hong Kong Institute of Certified Public Accountants.

LEE Jor Hung, BBS, aged 50, 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 director of the Hong Kong Securities Institute and a member of the Securities and Futures Appeals Panel. 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 Deputy Chairman of Hongkong Clearing. He holds a Bachelor degree in Business Administration and Commerce and a Master degree in Business Administration, and is a fellow of the Hong Kong Institute of Director. Mr. Lee has over 22 years of experience in the securities industry.

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTORS *(continued)*

LEE Sheung Yam, aged 50, 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 Institute of Certified Public Accountants. Mr. Lee has over 23 years of experience in the accounting and corporate finance field.

WONG Wai Sum, aged 53, 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. Mr. Wong is also a director of BOC China Fund Limited from 1994 to 2004. He was the Chairman of the Hong Kong Stockbrokers Association from 2001 to 2003. Mr. Wong was a Council Member of the Stock Exchange from 1990 to 1993 and the convener of its Compensation Committee from 1992 to 1993. He was also a director of Hongkong Clearing from 1992 to 1993. Mr. Wong has over 24 years of experience in the securities industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHUNG Shui Ming, Timpson, GBS, JP, aged 53, joined the Group in December 2001. Currently he is an executive director and CEO of Shimao China Holdings Limited and independent non-executive director of 5 listed companies in Hong Kong. He is also a member of National Committee of the 10th Chinese People's Political Consultative Conference, and a council Member and the Deputy Chairman of the City University of Hong Kong. Formerly, he was Chairman of the Hong Kong Housing Society and the Chief Executive of the Hong Kong Special Administrative Region Government Land Fund Trust. Mr. Chung holds a Master of Business Administration Degree and is a Fellow Member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants.

TSUI Yiu Wa, Alec, aged 55, joined the Group in December 2001. He is the Chief Executive of WAG Financial Services Group Limited, a Hong Kong based provider of financial and management consulting services and also Vice-Chairman of China Mergers and Acquisitions Association. Mr. Tsui was the Chairman of the Hong Kong Securities Institute from Dec 2001 to Dec 2004, and also the Adviser and Council Member of the Shenzhen Stock Exchange from July 2001 to June 2002. Prior to his current appointment, he was the Chief Executive of Regent Pacific Group Limited, a Hong Kong listed investment company from August 2000 to February 2001. Mr. Tsui joined the Stock Exchange in 1994 as Executive Director of the Finance and Operations Services Division and became Chief Executive in 1997. He was the Chief Operating Officer of Hong Kong Exchanges and Clearing Limited from March to July 2000.

Directors and Senior Management Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Mr. Tsui holds a Bachelor of Science degree and a Master of Engineering degree in Industrial Engineering from the University of Tennessee and has completed the Program for Senior Managers in Government at the John F. Kennedy School of Government at Harvard University. He has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management.

FUNG Cheong Yee, Alfred, aged 55, joined the Group in September 2004. He is qualified to practice as a solicitor in England and Wales, Hong Kong, Victoria, Australia and Singapore and is the co-founder of the law firm Sit, Fung, Kwong & Shum, from which he retired in 1996 as a partner and to which he is currently a consultant. Mr. Fung is also a Hong Kong notary public. He was a director of Symphony Holdings Limited from June 2002 to May 2003.

EXECUTIVE DIRECTORS

SO Kin Wing, aged 43, is the Chief Financial Officer and Company Secretary 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, Celestial Asia Securities Holdings Limited, 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 Fellow Member of Hong Kong Institute of Certified Public Accountants. Mr. So has over 19 years of experience in accounting and stockbroking.

LEE Sing Kai, Albert, aged 48, 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, Celestial Asia Securities Holdings Limited, as its financial controller. He has over 16 years' extensive working experience in the finance and accounting fields.

DIRECTORS' REPORT

The Directors are pleased to present their annual report together with the audited financial statements of Stockmartnet Holdings Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2004.

CORPORATE INFORMATION

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.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities and other particulars of the Company's subsidiaries are set out in note 16 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2004 are set out in the consolidated income statement on page 21.

The Directors do not recommend the payment of a dividend nor transfer of any amount to reserves for the year ended 31st December, 2004 (2003: Nil).

PROPERTY AND EQUIPMENT

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

SHARE CAPITAL

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

DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions of dividends to its shareholders subject to the provisions of its Memorandum and Articles of Association and a statutory solvency test. In accordance with Article 137 of the Articles of Association of the Company, 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, the Company's reserves available for distribution amounted to approximately HK\$19,713,000 as at 31st December, 2004.

Directors' Report

DIRECTORS

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

Executive Directors

So Kin Wing	<i>(Chief Financial Officer)</i>	
Lee Sing Kai, Albert	<i>(Chief Financial Controller)</i>	(Appointed on 3rd January, 2005)
Chick Siu Yee, Eddy	<i>(Chief Executive Officer)</i>	(Resigned on 21st January, 2005)

Non-executive Directors

Seto John Gin Chung	<i>(Chairman)</i>	
Lee Yiu Sun	<i>(Vice Chairman)</i>	
Yue Wai Keung	<i>(Vice Chairman)</i>	
Chan Henry		
Chan Kai Yu, Martin		
Chan Hung Ti		
Cheng Chi Lam		
Espina Anthony		
Lee Jor Hung		
Lee Sheung Yam		
Wong Wai Sum		
Cheung Wah Fung, Christopher		(Resigned on 22nd September, 2004)

Independent Non-executive Directors

Chung Shui Ming, Timpson		
Tsui Yiu Wa, Alec		
Fung Cheong Yee, Alfred		(Appointed on 30th September, 2004)

The Company has received annual confirmations from each of the Independent Non-executive Directors as regards their independence to the Company and considers that each of the Independent Non-executive Directors is independent to the Company.

In accordance with Articles 86(3) and 87(1) of the Company's Articles of Association and Rule A.4.2 of Appendix 15 of the GEM Listing Rules, Mr. Seto John Gin Chung, Mr. Lee Yiu Sun, Mr. Chan Henry, Mr. Cheng Chi Lam, Mr. Espina Anthony, Mr. Lee Jor Hung, Mr. Wong Wai Sum, Mr. Chung Shui Ming, Timpson, Mr. Tsui Yiu Wa, Alec, Mr. Fung Cheong Yee, Alfred, Mr. So Kin Wing and Mr. Lee Sing Kai, Albert will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general 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' Report

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2004, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company

Name of Director	Number of shares beneficially held			Approximate percentage shareholdings
	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 <i>(note 1)</i>	7,293,000	0.96%
Chan Henry	4,719,000	2,574,000 <i>(note 2)</i>	7,293,000	0.96%
Chan Kai Yu, Martin	4,719,000	2,574,000 <i>(note 3)</i>	7,293,000	0.96%
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%

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Long positions in shares of the Company *(continued)*

Name of Director	Number of shares beneficially held			Approximate percentage shareholdings
	Personal	Corporate	Total	
Espina Anthony	5,061,000	2,574,000 <i>(note 5)</i>	7,635,000	1.00%
Lee Jor Hung	4,719,000	2,574,000 <i>(note 6)</i>	7,293,000	0.96%
Lee Sheung Yam	4,719,000	–	4,719,000	0.62%
Wong Wai Sum	4,119,000 <i>(note 7)</i>	2,574,000 <i>(note 8)</i>	6,693,000	0.88%

Notes:

1. Mr. Yue Wai Keung was deemed to be interested in 2,574,000 shares through his controlling interest in Luen Fat Securities Company Limited.
2. Mr. Chan Henry was deemed to be interested in 2,574,000 shares through his controlling interest in Sanfull Securities Limited.
3. Mr. Chan Kai Yu, Martin was deemed to be interested in 2,574,000 shares through his controlling interest in Wellful Securities Company Limited.
4. Mr. Chan Hung Ti was deemed to be interested in 2,574,000 shares through his controlling interest in Troopers Securities Limited.
5. Mr. Espina Anthony was deemed to be interested in 2,574,000 shares through his controlling interest in Goldride Securities Limited.
6. Mr. Lee Jor Hung was deemed to be interested in 2,574,000 shares through his controlling interest in DL Brokerage Limited.
7. During the year ended 31st December, 2004, the Company became aware that 600,000 shares held by Mr. Wong Wai Sum had been transferred to two independent third parties as a gift.
8. Mr. Wong Wai Sum was deemed to be interested in 2,574,000 shares through his controlling interest in Hing Wong Securities Limited.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Long positions in underlying shares of the Company

The Company operates two share option schemes, namely the Share Option Scheme and the Pre-IPO Share Option Plan (as defined in the prospectus of the Company dated 8th January, 2002), under which the participants are entitled to an opportunity to obtain equity interest in the Company in respect of their services and/or goods provided to the Group. Particulars of these share option schemes are further set out in note 23 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.

Details of movements in the Pre-IPO Share Option Plan granted to the relevant persons were as follows:

Name of grantee	Date of grant	Number of options			Exercise period	Exercise price per share (approximately) HK\$
		Outstanding as at 1st January, 2004	Lapsed during the year	Outstanding as at 31st December, 2004		
So Kin Wing	17/12/2001	5,148,000	-	5,148,000	11/01/2004 – 16/12/2010	0.019

No options were offered or granted under the Pre-IPO Share Option Plan during the year ended 31st December, 2004 as the right to offer or grant options under the Pre-IPO Share Option Plan ended upon the listing of the Company's shares on GEM.

All the abovementioned outstanding options are unlisted and represent physically settled equity derivatives.

No options under the Share Option Scheme were outstanding at the beginning of nor were any such options granted during the year ended 31st December, 2004.

Directors' Report

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Long positions in underlying shares of the Company *(continued)*

The options granted under the Company's share option schemes are not recognised in the financial statements until they are exercised. The Directors consider that it is not appropriate to state the value of such options on the ground that there are limitations in the application of the Black-Scholes Option Pricing Model and the Binomial Model in the valuation of such options, especially given that the key assumption underlying these derivative valuation metrics - that the options valued can be sold in a secondary market transaction - is not valid because holders of such options may not sell such options, they may only exercise them. Accordingly, the Directors believe that any valuation of such options would not be meaningful and may be misleading to the shareholders of the Company.

Long positions in debentures of the Company

No long positions of the Directors or the chief executive of the Company in the debentures of the Company or its associated corporations were recorded in the register, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Short positions in shares of the Company

No short positions of the Directors or the chief executive of the Company in the shares of the Company or its associated corporations were recorded in the register, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Short positions in underlying shares of the Company

No short positions of the Directors or the chief executive of the Company in the underlying shares of the equity derivatives of the Company or its associated corporations were recorded in the register, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Save as disclosed above, as at 31st December, 2004, none of the Directors or the chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

During the year ended 31st December, 2004, there were no debt securities issued by the Group at any time.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31st December, 2004, the following persons (other than the Directors and the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

Name	Capacity	Nature of interest	Number of shares	Approximate percentage shareholdings
Lau Tung Hoi (notes 1 and 4)	Founder of a discretionary trust	Deemed	58,926,000	7.70%
HSBC International Trustee Limited (notes 1, 2 and 4)	Trustee	Corporate	58,926,000	7.70%
Linwood Services Ltd. (notes 3 and 4)	Interest of a controlled corporation	Corporate	58,926,000	7.70%
First Sign International Holdings Limited (notes 2, 3 and 4)	Interest of a controlled corporation	Corporate	58,926,000	7.70%

Notes:

1. Mr. Lau Tung Hoi was deemed to be interested in 58,926,000 shares as he was the founder of the LCY Trust.
2. HSBC International Trustee Limited, as trustee of the LCY Trust, was deemed to be interested in 58,926,000 shares through its indirect controlling interest of 100% in Linwood Services Ltd..
3. Linwood Services Ltd. was deemed to be interested in 58,926,000 shares through its controlling interest of 71.29% in First Sign International Holdings Limited.
4. The 58,926,000 shares held by each of Mr. Lau Tung Hoi, HSBC International Trustee Limited, Linwood Services Ltd. and First Sign International Holdings Limited refer to the same parcel of shares.

Long positions in underlying shares of the Company

No long positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(continued)*

Short positions in shares of the Company

No short positions of other persons or substantial shareholders in the shares of the Company were recorded in the register.

Short positions in underlying shares of the Company

No short positions of other persons or substantial shareholders in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 31st December, 2004, the Company had not been notified of any other person who had an interest or short position in the shares or underlying shares of the Company and was required to be recorded in the register required to be kept under Section 336 of the SFO and/or was directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

During the year ended 31st December, 2004, there were no debt securities issued by the Group at any time.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes as described above and in note 23 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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

There was no contract of significance in relation to the Group's business 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.

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 interest
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
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, neither it nor its directors, employees or associates 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, 2004.

Pursuant to the deed of novation dated 2nd December, 2002 as set out in the Company's announcement of the same date, UOB Asia (Hong Kong) Limited had assumed the continuing sponsor role and acted as the continuing sponsor to the Company for a term which ended on 31st December, 2004.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the largest and the five largest customers of the Group accounted for approximately 14% and 23% of the Group's turnover respectively. One supplier of the Group accounted for 100% of the Group's cost of services. None of the Directors, their associates or shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued 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.

BOARD PRACTICES AND PROCEDURES

During the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January, 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for financial year ending 31st December, 2005.

Directors' Report

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31st December, 2004. Having made specific enquiry of all Directors, the Company's Directors have complied with such code of conduct and the required standard of dealings throughout the year ended 31st December, 2004.

AUDIT COMMITTEE

The audit committee comprises three members, being Mr. Chung Shui Ming, Timpson and Mr. Tsui Yiu Wa, Alec, Independent Non-executive Directors, and Mr. Lee Yiu Sun, a Vice Chairman and a Non-executive Director. Mr. Lee Jor Hung, a Non-executive Director acts as an alternate to Mr. Lee Yiu Sun. During the year, the audit committee met 4 times.

The audit committee has reviewed the financial statements of the Group for the year ended 31st December, 2004 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.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were auditors of the Company for the year ended 31st December, 2002. Messrs. HLB Hodgson Impey Cheng were auditors of the Company for the years ended 31st December, 2003 and 2004.

The accompanying financial statements were audited by Messrs. HLB Hodgson Impey Cheng. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Seto John Gin Chung
Chairman

Hong Kong, 24th March, 2005

AUDITORS' REPORT

Chartered Accountants
 Certified Public Accountants

6/F, Wheelock House
 20 Pedder Street
 Central
 Hong Kong

TO THE SHAREHOLDERS OF STOCKMARTNET HOLDINGS LTD.

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 21 to 47 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 of the Group as at 31st December, 2004 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.

HLB Hodgson Impey Cheng

*Chartered Accountants
 Certified Public Accountants*

Hong Kong, 24th March, 2005

CONSOLIDATED INCOME STATEMENT*For the year ended 31st December, 2004*

	<i>Note</i>	2004 HK\$	2003 HK\$
Turnover	4	6,737,390	5,320,157
Other operating income	6	449,415	513,279
		7,186,805	5,833,436
Amortisation of intangible assets		(666,432)	(593,264)
Impairment of goodwill		–	(191,839)
Depreciation of property and equipment		(771,585)	(861,792)
Staff costs, including directors' remuneration		(6,877,439)	(10,931,211)
Other operating expenses		(9,629,215)	(10,218,944)
Loss before taxation	7	(10,757,866)	(16,963,614)
Income tax	10	–	–
Net loss for the year		(10,757,866)	(16,963,614)
Loss per share – basic and diluted	11	(1.41) cents	(2.22) cents

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31st December, 2004

	Note	2004 HK\$	2003 HK\$
Non-current assets			
Property and equipment	12	833,001	1,603,186
Intangible assets	13	2,031,664	2,698,096
Statutory deposits	15	2,180,000	2,255,000
		5,044,665	6,556,282
Current assets			
Trade receivables	17	8,667,485	10,958,786
Other amounts receivable, prepayments and deposits		515,998	550,232
Bank balances and cash		24,864,467	35,153,841
		34,047,950	46,662,859
Current liabilities			
Trade payables	18	12,038,812	15,298,828
Other amounts payable and accrued charges		499,808	608,452
		12,538,620	15,907,280
Net current assets		21,509,330	30,755,579
Net assets		26,553,995	37,311,861
Capital and reserves			
Share capital	20	7,648,860	7,648,860
Share premium		80,974,438	80,974,438
Special reserve	21	4,778,740	4,778,740
Accumulated losses		(66,848,043)	(56,090,177)
Total capital and reserves		26,553,995	37,311,861

The financial statements on pages 21 to 47 were approved and authorised for issue by the Board of Directors on 24th March, 2005 and are signed on its behalf by:

So Kin Wing
Director

Lee Sing Kai, Albert
Director

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

As at 31st December, 2004

	<i>Note</i>	2004 HK\$	2003 HK\$
Non-current assets			
Property and equipment	12	519,440	905,255
Investments in subsidiaries	16	4,771,260	4,771,260
		5,290,700	5,676,515
Current assets			
Other amounts receivable, prepayments and deposits		444,850	439,756
Amounts due from subsidiaries	19	34,837,331	44,638,402
Bank balances and cash		1,285,514	1,896,208
		36,567,695	46,974,366
Current liabilities			
Other amounts payable and accrued charges		294,385	286,995
Amounts due to subsidiaries		14,202,225	9,144,037
		14,496,610	9,431,032
Net current assets		22,071,085	37,543,334
Net assets		27,361,785	43,219,849
Capital and reserves			
Share capital	20	7,648,860	7,648,860
Share premium		80,974,438	80,974,438
Accumulated losses		(61,261,513)	(45,403,449)
Total capital and reserves		27,361,785	43,219,849

So Kin Wing
Director

Lee Sing Kai, Albert
Director

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31st December, 2004

	Share capital HK\$ (Note 20)	Share premium HK\$	Special reserve HK\$ (Note 21)	Accumulated losses HK\$	Total HK\$
The Group					
As at 1st January, 2003	7,648,860	80,974,438	4,778,740	(39,126,563)	54,275,475
Net loss for the year	–	–	–	(16,963,614)	(16,963,614)
As at 31st December, 2003 and 1st January, 2004	7,648,860	80,974,438	4,778,740	(56,090,177)	37,311,861
Net loss for the year	–	–	–	(10,757,866)	(10,757,866)
As at 31st December, 2004	7,648,860	80,974,438	4,778,740	(66,848,043)	26,553,995
The Company					
As at 1st January, 2003	7,648,860	80,974,438	–	(36,977,204)	51,646,094
Net loss for the year	–	–	–	(8,426,245)	(8,426,245)
As at 31st December, 2003 and 1st January, 2004	7,648,860	80,974,438	–	(45,403,449)	43,219,849
Net loss for the year	–	–	–	(15,858,064)	(15,858,064)
As at 31st December, 2004	7,648,860	80,974,438	–	(61,261,513)	27,361,785

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2004

	Note	2004 HK\$	2003 HK\$
Operating activities			
Loss before taxation		(10,757,866)	(16,963,614)
Adjustments for:			
Depreciation of property and equipment		771,585	861,792
Amortisation of intangible assets		666,432	593,264
Impairment of goodwill		–	191,839
Loss on disposal of property and equipment		–	122,672
Interest expenses		17,765	24,180
Interest income		(153,170)	(434,811)
Operating loss before movements in working capital			
		(9,455,254)	(15,604,678)
Decrease/ (increase) in statutory deposits		75,000	(300,000)
Decrease/ (increase) in trade receivables		2,291,301	(4,722,461)
Decrease in other amounts receivable, prepayments and deposits		34,234	5,313,749
Decrease/ (increase) in bank trust accounts		3,592,881	(7,573,473)
(Decrease)/ increase in trade payables		(3,260,016)	13,483,156
Decrease in other amounts payable and accrued charges		(108,644)	(2,977,368)
Cash used in operations			
		(6,830,498)	(12,381,075)
Interest paid		(17,765)	(24,180)
Interest received		153,170	434,811
Net cash used in operating activities			
		(6,695,093)	(11,970,444)
Investing activities			
Purchase of property and equipment		(1,400)	(107,071)
Acquisition of a subsidiary, net of cash acquired	22	–	(6,593,169)
Sale of property and equipment		–	5,912
Net cash used in investing activities			
		(1,400)	(6,694,328)
Net decrease in cash and cash equivalents			
		(6,696,493)	(18,664,772)
Cash and cash equivalents at beginning of the year		26,937,003	45,601,775
Cash and cash equivalents at end of the year			
		20,240,510	26,937,003
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		24,864,467	35,153,841
Less: Trust account balances		(4,623,957)	(8,216,838)
		20,240,510	26,937,003

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

1. CORPORATE INFORMATION AND BASIS OF PREPARATION OF 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 the provision of a trading platform, brokerage and securities margin financing business, and infrastructure broking services comprising trading, clearing and settlement.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The financial statements have been prepared under the historical cost convention.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (the "new HKFRSs"), which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies followed by the Group in the preparation of the financial statements is set out below:

a. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b. Investments in subsidiaries

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

c. 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 and infrastructure broking services are recognised when services are rendered.

Recovery of doubtful debts and sundry income are recognised when received.

d. Property and equipment

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

Depreciation is provided to write off the cost of items of property and equipment over their estimated useful lives, using the straight-line method, 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.

e. Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. Positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f. Intangible assets

Intangible assets, other than goodwill, are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

g. 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.

h. Income tax

The charge for taxation in the income statement comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Initial recognition of assets or liabilities that affect neither accounting nor taxable profit is regarded as a temporary difference which is not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

j. Translation of 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.

k. Operating leases

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

l. 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.

m. 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, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

n. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

o. Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

4. TURNOVER

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

	2004	2003
	HK\$	HK\$
Income from trading platform	144,084	365,788
Commission income/ Infrastructure broking service fees	6,445,680	4,744,708
Interest income from clients	147,626	209,661
	6,737,390	5,320,157

Notes to the Financial Statements

For the year ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into 2 main operating divisions, engaged in the following principal activities: (i) the provision of a trading platform; and (ii) brokerage and securities margin financing business, and infrastructure broking services. These divisions are the bases 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, and infrastructure broking services

Income statement for the year ended 31st December, 2004

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Total HK\$
Revenues			
Turnover	144,084	6,593,306	6,737,390
	<hr/>		
Results			
Segment loss	(267,557)	(4,593,879)	(4,861,436)
	<hr/>		
Net unallocated corporate expenses			(5,896,430)
			<hr/>
Loss before taxation			(10,757,866)
Income tax			-
			<hr/>
Net loss for the year			(10,757,866)
			<hr/>

Notes to the Financial Statements

For the year ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Income statement for the year ended 31st December, 2003

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Total HK\$
Revenues			
Turnover	365,788	4,954,369	5,320,157
Results			
Segment loss	(470,608)	(7,772,748)	(8,243,356)
Net unallocated corporate expenses			(8,720,258)
Loss before taxation			(16,963,614)
Income tax			–
Net loss for the year			(16,963,614)

Balance sheet as at 31st December, 2004

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Total HK\$
Assets			
Segment assets	202,348	35,639,813	35,842,161
Unallocated corporate assets			3,250,454
			39,092,615
Liabilities			
Segment liabilities	1,298	12,242,937	12,244,235
Unallocated corporate liabilities			294,385
			12,538,620

Notes to the Financial Statements

For the year ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Balance sheet as at 31st December, 2003

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Total HK\$
Assets			
Segment assets	233,921	48,738,539	48,972,460
Unallocated corporate assets			4,246,681
			53,219,141
Liabilities			
Segment liabilities	12,284	15,608,001	15,620,285
Unallocated corporate liabilities			286,995
			15,907,280

Other information for the year ended 31st December, 2004

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Unallocated balance HK\$	Total HK\$
Additions of property and equipment	–	–	1,400	1,400
Depreciation and amortisation	47,719	1,003,083	387,215	1,438,017

Notes to the Financial Statements

For the year ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Other information for the year ended 31st December, 2003

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Unallocated balance HK\$	Total HK\$
Additions of property and equipment	–	56,271	50,800	107,071
Addition of intangible assets	–	2,368,000	–	2,368,000
Depreciation and amortisation	133,334	945,840	375,882	1,455,056
Impairment of goodwill	–	191,839	–	191,839

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

6. OTHER OPERATING INCOME

	2004 HK\$	2003 HK\$
CCASS fee income	69,670	51,843
Handling fee income	70,240	66,003
Interest income on bank deposits	615	154,819
Other interest income	4,929	70,331
Recovery of doubtful debts	–	12,990
Sundry income	303,961	157,293
	449,415	513,279

7. LOSS BEFORE TAXATION

	2004 HK\$	2003 HK\$
Loss before taxation has been arrived at after charging:		
Auditors' remuneration	120,000	100,000
Loss on disposal of property and equipment	–	122,672
Operating lease rentals in respect of rented office premises	1,012,576	1,580,157

Notes to the Financial Statements

For the year ended 31st December, 2004

8. DIRECTORS' REMUNERATION

	2004	2003
	HK\$	HK\$
Directors' fees paid to Independent Non-executive Directors	225,000	200,000
Other emoluments paid to Executive Directors:		
Salaries and other benefits	2,640,000	4,626,000
Contributions to Mandatory Provident Fund Scheme	24,000	21,000
	<hr/>	<hr/>
Total emoluments	2,889,000	4,847,000
	<hr/> <hr/>	<hr/> <hr/>

During the year, the emoluments paid to the Independent Non-executive Directors as disclosed above were paid to three Independent Non-executive Directors (2003: two) of HK\$100,000 (2003: HK\$100,000), HK\$100,000 (2003: HK\$100,000), and HK\$25,000 (2003: Nil) respectively. The emoluments paid to the Executive Directors as disclosed above were paid to two Executive Directors (2003: three) of HK\$1,212,000 (2003: HK\$1,212,000), HK\$1,452,000 (2003: HK\$176,000), and nil (2003: HK\$3,259,000) respectively. During the year, no emoluments were paid by the Group to the Non-executive Directors (2003: Nil).

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.

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2003: two) were Directors of the Company whose emoluments are included in note 8 to the financial statements. The emoluments of the remaining three (2003: three) individuals were as follows:

	2004	2003
	HK\$	HK\$
Salaries and other benefits	1,675,157	2,036,000
Contributions to Mandatory Provident Fund Scheme	32,000	36,000
	<hr/>	<hr/>
	1,707,157	2,072,000
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31st December, 2004

9. EMPLOYEES' EMOLUMENTS *(continued)*

Their emoluments were within the following bands:

	2004	2003
	No. of	No. of
	employees	employees
Nil to HK\$1,000,000	3	2
HK\$1,000,001 to HK\$1,500,000	–	1

10. INCOME TAX

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred a tax loss for the year (2003: Nil).

Details of potential deferred tax not recognised are set out in note 24 to the financial statements.

11. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31st December, 2004 is based on the net loss of the Group of HK\$10,757,866 (2003: HK\$16,963,614) and 764,886,000 ordinary shares (2003: 764,886,000) in issue during the year. 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, 2004

12. PROPERTY AND EQUIPMENT

	Leasehold improvements HK\$	Office equipment and furniture HK\$	Computer equipment HK\$	Total HK\$
The Group				
At cost				
As at 1st January, 2004	998,243	906,646	1,062,128	2,967,017
Additions	–	1,400	–	1,400
As at 31st December, 2004	998,243	908,046	1,062,128	2,968,417
Accumulated depreciation				
As at 1st January, 2004	345,722	591,039	427,070	1,363,831
Provided for the year	204,981	212,562	354,042	771,585
As at 31st December, 2004	550,703	803,601	781,112	2,135,416
Net book values				
As at 31st December, 2004	447,540	104,445	281,016	833,001
As at 31st December, 2003	652,521	315,607	635,058	1,603,186
The Company				
At cost				
As at 1st January, 2004	958,252	235,529	350,232	1,544,013
Additions	–	1,400	–	1,400
As at 31st December, 2004	958,252	236,929	350,232	1,545,413
Accumulated depreciation				
As at 1st January, 2004	338,480	130,282	169,996	638,758
Provided for the year	191,650	78,821	116,744	387,215
As at 31st December, 2004	530,130	209,103	286,740	1,025,973
Net book values				
As at 31st December, 2004	428,122	27,826	63,492	519,440
As at 31st December, 2003	619,772	105,247	180,236	905,255

Notes to the Financial Statements

For the year ended 31st December, 2004

13. INTANGIBLE ASSETS

The Group

	HK\$
At cost	
As at 1st January, 2004 and 31st December, 2004	<u>3,592,000</u>
Accumulated amortisation	
As at 1st January, 2004	893,904
Provided for the year	<u>666,432</u>
As at 31st December, 2004	<u>1,560,336</u>
Net book values	
As at 31st December, 2004	<u><u>2,031,664</u></u>
As at 31st December, 2003	<u><u>2,698,096</u></u>

The intangible assets as at 31st December, 2004 represent two trading rights in the Stock Exchange and one trading right in the Hong Kong Futures Exchange Limited ("HKFE").

14. GOODWILL

The Group

	HK\$
Addition through acquisition of a subsidiary (<i>note 22</i>)	191,839
Impairment loss recognised	<u>(191,839)</u>
As at 31st December, 2003 and 2004	<u><u>–</u></u>

The Directors of the Company having taken into account the current economic condition and the changes in the business environment in the futures contracts dealing business, recognised an impairment loss of HK\$191,839 in respect of goodwill arising from the acquisition of a subsidiary during the year ended 31st December, 2003.

Notes to the Financial Statements

For the year ended 31st December, 2004

15. STATUTORY DEPOSITS

	The Group	
	2004	2003
	HK\$	HK\$
Hong Kong Securities Clearing Company Limited ("HKSCC")		
– contribution fund deposit	100,000	100,000
– admission fee deposit	100,000	100,000
The Stock Exchange		
– compensation fund deposit	100,000	100,000
– fidelity fund deposit	100,000	100,000
– stamp duty deposit	30,000	5,000
HKFE Clearing Corporation Limited ("HKFECC")		
– reserve fund deposit	1,500,000	1,500,000
HKFE		
– compensation fund deposit	–	100,000
Securities and Futures Commission ("SFC")		
– deposits for responsible officers	250,000	250,000
	2,180,000	2,255,000

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004	2003
	HK\$	HK\$
Unlisted shares, at cost	4,771,260	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 (as defined in the prospectus of the Company dated 8th January, 2002).

Notes to the Financial Statements

For the year ended 31st December, 2004

16. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Company's subsidiaries as at 31st December, 2004 are as follows:

Name of company	Place of incorporation/ operation	Particulars of issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Stockmartnet Holdings (BVI) Limited	The British Virgin Islands	611,700 ordinary shares of US\$1 each	100%	–	Investment holding
Datafield Limited	Hong Kong	3 ordinary shares of HK\$1 each	–	100%	Inactive
Stockmartnet Limited	Hong Kong	3 ordinary shares of HK\$1 each	–	100%	Inactive
Stockmartnet Domain Names Limited	The British Virgin Islands	1 ordinary share of US\$1 each	–	100%	Holding of domain names
Stockmartnet Capital Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	–	100%	Not yet commenced business
Stockmartnet Financial Services Limited	Hong Kong	50,000,000 ordinary shares of HK\$1 each	–	100%	Securities dealing and margin financing, and infrastructure broking services
Stockmartnet Futures Limited	Hong Kong	12,000,000 ordinary shares of HK\$1 each	–	100%	Futures contracts dealing
Stockmartnet Corporate Finance Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Not yet commenced business
Stockmartnet Processing Services Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Provision of a trading platform
Stockmartnet Technology Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	–	100%	Dormant
Stockmartnet Strategic Investment Limited	The British Virgin Islands	1 ordinary share of US\$1 each	–	100%	Not yet commenced business
Stockmartnet Nominee Limited	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Not yet commenced business

Notes to the Financial Statements

For the year ended 31st December, 2004

17. TRADE RECEIVABLES

	The Group	
	2004	2003
	HK\$	HK\$
Accounts receivable arising from equities broking:		
Margin clients	408,808	1,979,407
Cash clients	1,442,732	4,406,164
HKSCC (net)	5,544,126	–
Accounts receivable arising from futures broking:		
Brokers and dealers	865,016	4,170,747
HKFECC	405,100	359,510
Other trade receivables	1,703	42,958
	8,667,485	10,958,786

Accounts receivable from margin clients are repayable on demand, bear interest at prevailing market rates and are secured by clients' securities that are listed on the Stock Exchange with market value of approximately HK\$2,792,000 as at 31st December, 2004 (2003: HK\$42,457,000). No aged analysis is disclosed as, in the opinion of the Directors of the Company, the aged analysis does not give additional value in view of the nature of business of securities margin financing.

The settlement terms of accounts receivable arising from equities broking are one or two trade days after the trade execution date, and accounts receivable arising from futures broking are one trade day after the trade execution date. Except for the accounts receivable from margin clients as mentioned above, 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	
	2004	2003
	HK\$	HK\$
0 – 30 days	1,703	42,958

Notes to the Financial Statements

For the year ended 31st December, 2004

18. TRADE PAYABLES

	The Group	
	2004	2003
	HK\$	HK\$
Accounts payable arising from equities broking:		
Margin clients	2,062,559	2,180,711
Cash clients	8,185,407	7,733,790
HKSCC (net)	–	807,277
Accounts payable arising from futures broking:		
Clients	1,099,294	4,315,782
Other trade payables	691,552	261,268
	12,038,812	15,298,828

Accounts payable to margin clients are repayable on demand and bear interest at prevailing market rates. No aged analysis is disclosed as, in the opinion of the Directors of the Company, the aged analysis does not give additional value in view of the nature of business of securities margin financing.

The settlement terms of accounts payable arising from equities broking are one or two trade days after the trade execution date. The age of these balances is within 30 days.

Accounts payable to clients arising from futures broking are margin deposits received from clients for their trading of futures contracts. The excess of the outstanding amounts over the required margin deposits stipulated are repayable to clients on demand. No aged analysis is disclosed as, in the opinion of the Directors of the Company, the aged analysis does not give additional value in view of the nature of business of futures contracts dealing.

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

	The Group	
	2004	2003
	HK\$	HK\$
0 – 30 days	691,552	261,268

Notes to the Financial Statements

For the year ended 31st December, 2004

19. AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2004	2003
	HK\$	HK\$
Amounts due from subsidiaries	66,837,331	66,638,402
Allowance	(32,000,000)	(22,000,000)
	34,837,331	44,638,402

During the year ended 31st December, 2004, the Company reviewed the recoverability of the amounts due from subsidiaries and an additional amount of HK\$10,000,000, which represents the written-off of advances provided to subsidiaries for their daily operations, had been recognised to reduce the carrying amount to the estimated recoverable amount.

20. SHARE CAPITAL

	Number of shares		2004	2003	2004	2003
	2004	2003				
Ordinary shares of HK\$0.01 each						
Authorised:						
At beginning of the year						
and at end of the year	10,000,000,000	10,000,000,000	100,000,000		100,000,000	
Issued and fully paid:						
At beginning of the year						
and at end of the year	764,886,000	764,886,000	7,648,860		7,648,860	

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 Holdings (BVI) Limited pursuant to the Corporate Reorganisation.

Notes to the Financial Statements

For the year ended 31st December, 2004

22. ACQUISITION OF A SUBSIDIARY

On 6th March, 2003, the Group acquired the entire issued share capital of Stockmartnet Futures Limited (formerly known as CU Futures Limited) for a consideration of HK\$11,714,466. During the year ended 31st December, 2002, an amount of HK\$800,000 was paid to the vendor as deposit.

	2003 HK\$
Net assets acquired	
Trading right in the HKFE	608,160
Statutory deposits	1,600,000
Other amounts receivable and prepayments	5,012,000
Bank balances, including bank trust accounts	4,322,217
Trade payables	(920)
Other amounts payable	(18,830)
	<hr/>
Net identifiable assets and liabilities	11,522,627
	<hr/>
Goodwill arising on consolidation	191,839
	<hr/>
Total purchase price paid, satisfied in cash	11,714,466
<i>Less:</i> Deposit paid during the year ended 31st December, 2002	(800,000)
Cash of the subsidiary acquired, excluding bank trust accounts	(4,321,297)
	<hr/>
Net cash outflow during the year ended 31st December, 2003 in respect of the acquisition of the subsidiary	6,593,169
	<hr/> <hr/>

The subsidiary acquired during the year ended 31st December, 2003 contributed revenue of HK\$417,123 and a loss of HK\$1,238,055 for the period since acquisition to 31st December, 2003. During the period since acquisition to 31st December, 2003, the subsidiary acquired contributed approximately HK\$1,814,000 to the Group's net operating cash outflows.

Notes to the Financial Statements

For the year ended 31st December, 2004

23. 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 Group.

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 options must be exercised shall not be more than 10 years from the date of grant of the share options.

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 Plan 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 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 ending 11th January, 2004 in accordance with the terms of the Pre-IPO Share Option Plan. No further options will be offered or granted upon the listing of the shares of the Company on GEM. No options were exercised, cancelled or lapsed during the year ended 31st December, 2004. There were 5,148,000 outstanding options as at 31st December, 2004.

Notes to the Financial Statements

For the year ended 31st December, 2004

24. DEFERRED TAX

No deferred tax liabilities have been recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 31st December, 2003 and 2004.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31st December, 2004, the unprovided deferred tax assets of the Group and of the Company are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Tax effect of temporary difference attributable to estimated tax losses	12,843,213	9,755,696	5,347,547	4,019,703

25. BANKING FACILITIES

The Company has given a guarantee to a bank in respect of general facility of HK\$45,000,000 (2003: HK\$45,000,000) granted to one of its subsidiaries. As at the balance sheet date, such facility was not utilised by the subsidiary (2003: Nil).

The Group has given a charge over margin clients' securities in favour of a bank in respect of general facility granted to one of its subsidiaries to finance subscription for shares on behalf of the margin clients. As at the balance sheet date, such facility was not utilised by the subsidiary (2003: Nil).

26. COMMITMENTS

i. Operating lease commitments

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

	The Group		The Company	
	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$
Within one year	614,239	959,988	614,239	959,988
In the second to fifth years inclusive	–	79,999	–	79,999
	614,239	1,039,987	614,239	1,039,987

Leases in respect of rented office premises are negotiated for an average period of three years.

Notes to the Financial Statements

For the year ended 31st December, 2004

26. COMMITMENTS *(continued)*

ii. Financial commitments

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. As at 31st December, 2004, the Group's financial commitments under the aforesaid agreement amounted to approximately HK\$2,195,000, of which HK\$1,040,000 will fall due within one year and HK\$1,155,000 will fall due between one and two years.

27. RETIREMENT BENEFITS SCHEME

The Group participates in a Mandatory Provident Fund Scheme (the "Scheme") established under the Mandatory Provident Fund Schemes 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\$153,000 (2003: HK\$125,000). The Group's contributions to the Scheme are expensed as incurred and, where applicable, are reduced by voluntary contributions forfeited from those employees who leave the Scheme prior to vesting fully in the contributions. As 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\$198,000 (2003: HK\$106,000).

28. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 24th March, 2005.

FINANCIAL SUMMARY

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

	1.1.2004 to 31.12.2004 HK\$	1.1.2003 to 31.12.2003 HK\$	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	6,737,390	5,320,157	1,764,834	521,030	–
Loss before taxation	(10,757,866)	(16,963,614)	(22,646,492)	(15,482,890)	(997,181)
Income tax	–	–	–	–	–
Loss attributable to shareholders	(10,757,866)	(16,963,614)	(22,646,492)	(15,482,890)	(997,181)
	2004 HK\$	2003 HK\$	2002 HK\$	2001 HK\$	2000 HK\$
ASSETS AND LIABILITIES					
Total assets	39,092,615	53,219,141	59,657,217	11,539,274	8,671,338
Total liabilities	(12,538,620)	(15,907,280)	(5,381,742)	(17,869,341)	(9,168,519)
Net asset/ (liabilities)	26,553,995	37,311,861	54,275,475	(6,330,067)	(497,181)