



金融社控股有限公司  
**STOCKMARTNET HOLDINGS LTD.**

*(incorporated in the Cayman Islands with limited liability)*




Annual Report **2003**



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## **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.**



## 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](http://www.stockmartnet.com)

**COMPANY SECRETARY**

Chau Kwok Ming, ACS, ACIS

**COMPLIANCE OFFICER**

Chick Siu Yee, Eddy

**QUALIFIED ACCOUNTANT**

So Kin Wing, AHKSA, CA

**AUDIT COMMITTEE**

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

**AUTHORISED REPRESENTATIVES**

Chau Kwok Ming and So Kin Wing

**AUTHORISED PERSONS TO ACCEPT SERVICE OF PROCESS AND NOTICES**

Chick Siu Yee, Eddy

**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, 19th 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

Stockmartnet Holdings Ltd. (the "Company"), together with its subsidiaries (the "Group") has gone through the best of times and the worst of times of 2003. With the appearance of SARS in the first half of 2003, trading activity and index level in Hong Kong's securities and derivative markets declined substantially, impacting our members and directly affecting the Group's revenue. However, towards the end of the year, both volume and stock prices had improved and the whole industry was revitalised by the IPO market.

In September 2003, our former Chief Executive Officer, Mr. Lee Wai Hung, Alan resigned for personal reasons. In November 2003, our new Chief Executive Officer, Mr. Chick Siu Yee, Eddy who had two decades of experience in the banking industry, with particular focus on derivatives and international capital markets, joined the Group. With Mr. Chick's leadership, the directors of the Company (the "Directors") believe the Group will continue to meet the challenge of improving the competitiveness of our small and medium size broker members.

### **BUSINESS REVIEW**

The following is a brief account of the updated/latest status of each line of business services.

#### **Securities Trading Platform**

Expanding industry usage of the Group's trading platform in 2003 was challenging. However, the Group continued to expand the platform for intranet and internet trading capability. The Group's trading platform now supports not only stock trading in Hong Kong but also futures products of the world's major exchanges ("Global Futures"). The resilience of the platform has also been greatly improved with high availability AMS/3 Open Gateway, redundant HKATS Network Gateway connection ports and redundant leased lines to the data centre. Multi-workstation System has been installed for contingency backup.

#### **Securities and IPO Business**

Securities trading volume as well as IPO business have picked up since the second quarter last year due to a better economic outlook and improved market conditions. Our broker members have shown keen interest in subscribing IPOs via the Group, increasing not only the IPO business but directly benefiting our margin financing business.

#### **Margin Financing Business**


The Group's margin financing business has picked up with improved market conditions. However, owing to capital constraint, the size of the margin financing business is capped at a relatively conservative level.

#### **Back Office System**

Our new back office system has been successfully implemented. It has also been enhanced to accommodate futures trading capacity.

#### **Hong Kong and Global Futures**

In 2003, the Group acquired a futures trading right enabling it to successfully launch futures products of the Hong Kong Futures Exchange Limited. The Group also launched Global Futures products. All electronically executable trades can now be executed via our internet trading platform, while clients can trade futures manually by telephone. This platform has proven to be user-friendly and business has been increasing since we launched this service.



## Chairman's Statement

### **Infrastructure Broking Services**

During 2003, a total of four brokers have joined our infrastructure broking services. The initial response was not as positive as previously anticipated but the feedback does indicate the potential of the services.

The Group continued to expand its products and services to provide a "one-stop" total solution financial service, aiming to help brokers to improve their business potential.

### **Marketing and promotion activities**

We organized four seminars during 2003 to promote the Group's new products and services as well as addressing the business and operating issues facing the industry due to changing market and regulatory environments.

### **OUTLOOK**

With improving market conditions, the Directors believe that there will be more opportunities for the securities industry and the Group in 2004. Our new Chief Executive Officer will bring his market expertise in different product areas to our fellow broker members and their customers in meeting our challenges. Strong emphasis will be placed on packaging and promoting financial products.

The Directors believe that this business initiative will enable the Group to expand market networks in developing transaction opportunities with relevant market participants and create mutually beneficial co-branding opportunities with financial entities.

The Directors believe that the fulfillment of the Group's corporate vision is not restricted to enhancing the competitiveness of our small and medium sized broker members but also focuses on the strategically important expansion of the Group's line of business and the diversification of the Group's revenue sources through alliances with other financial institutions. Given the constraint on the Group's capital, 2004 is expected to be a challenging year for the Group. Nevertheless, we are confident that shareholders will eventually benefit from the Group's ability to implement its business model and improve revenue. As disclosed in the announcements dated 23rd February, 2004 and 3rd March, 2004, the Company is engaged in discussions concerning a potential investment by an investor acquiring a controlling stake in the Company for cash followed by a possible general offer for the remaining shares of the Company.

Finally, I would like to extend my thanks and appreciation to our shareholders, my fellow Directors and our staff for their support and dedication to the Group throughout the past years. I look forward to the continuous contribution of their time and effort that is undoubtedly the key to our future success.

### **Seto John Gin Chung**

*Chairman*

Hong Kong, 26th March, 2004



## Management Discussion and Analysis

### FINANCIAL REVIEW

The turnover of the Group was approximately HK\$5,320,000 for the year ended 31st December, 2003 (2002: approximately HK\$1,765,000). This represented an increase of 201% from the previous year due to the launch of our brokerage and securities margin financing business and infrastructure broking services and the increase of trading volume in the second half of the reporting year. Apart from the increase in turnover, the Group also implemented certain control measures. Accordingly, the loss attributable to shareholders for the year ended 31st December, 2003 decreased to approximately HK\$16,964,000 from approximately HK\$22,646,000 during the corresponding period in 2002.

### Liquidity and Financial Resources

As at 31st December, 2003, the Group had total assets of approximately HK\$53,219,000 (2002: approximately HK\$59,657,000), including bank balances and cash of approximately HK\$35,154,000 (2002: approximately HK\$46,244,000). The Group did not have any bank borrowing or loan during the period under review. As at 31st December, 2003, 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\$30,756,000 (2002: approximately HK\$50,251,000), the Group remained in a financially liquid position as at 31st December, 2003. The Directors believe that the Group has a healthy financial position and has sufficient resources to meet its working capital requirement and ongoing development.

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, 2003, the Group had rationalized its workforce to 19 employees (2002: 30). For the year ended 31st December, 2003, the total staff costs amounted to approximately HK\$10,931,000 (2002: approximately HK\$14,194,000). The Group's remuneration policies are determined on the basis of the performance and experience of individual employees.

### Capital structure

Apart from the allotment and issue of 3,792,000 new shares at HK\$0.125 per share to First Sign Securities Limited on 26th November, 2002 as part of the consideration for the acquisition of a trading right in the Stock Exchange by one of the Group's subsidiaries, there has been no change in the capital structure of the Company since the listing of the Company on GEM on 11th January, 2002.

### Significant investments

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. Other than the above acquisition, the Group did not make any material acquisitions or disposal during the year ended 31st December, 2003.



## 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 31st December, 2002 to 31st December, 2003.

### **Business Objectives**

The Group will enhance its services and infrastructure in order to cope with the expected increase in market share and new products by introducing multi-market, multi-product, multi-language and multi-currency services.

#### ***SMNOnline***

SMNOnline will be capable of supporting futures and options trading (including basket and arbitrage trading).

The Group will continue to enhance the various services offered by enriching the content with more news and market information, adding more functions and features and exploring new products to meet changing market trends and demands of Users and customers.

Additional trading channels through mobile phones, WAPs, short message services, PDAs and telephone interactive voice response systems are expected to be launched. The wireless service feature of stockmartnet.com is also expected to be activated.

### **Actual Progress**

With the switching to the new proven ASP platform supporting multi-market, multi-product, multi-language and multi-currency, the Group has enhanced its services and infrastructure to cope with the introduction of new products.

#### ***SMNOnline***

Futures trading has been rolled out while options trading is being tested.

The Group offers comprehensive news and market information to subscribing customers of the trading platform. To meet changing market trends and demands of Users and customers, futures products of the world's major exchanges have been launched successfully.

Additional trading channels have not yet been launched in order to release resources for the Global Futures development. However, the trading platform is capable of expanding into multiple access channels upon demand.





## Directors and Senior Management Profile

### NON-EXECUTIVE DIRECTORS

**SETO John Gin Chung**, aged 55, 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 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 29 years of experience in the securities and futures industry.

**LEE Yiu Sun**, aged 46, 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 15 years of experience in the securities and financial service sector.

**YUE Wai Keung**, aged 51, 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 31 years of experience in the securities and futures industry.

**CHAN Henry**, aged 38, is a Non-executive Director of the Company and joined the Group in July 2000. He is the Managing Director of Sanfull Securities Limited. Mr. Chan is currently the Chairman of the Hong Kong Stockbrokers Association, a member of the Listing Committee of the Main Board of the Stock Exchange 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 17 years of experience in the securities and financial service sector.

**CHAN Kai Yu, Martin**, aged 63, 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 38 years of experience in the securities and financial service sector.

*Directors and Senior Management Profile***NON-EXECUTIVE DIRECTORS** *(continued)*

**CHAN Hung Ti**, aged 53, 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 31 years of experience in the securities industry.

**CHENG Chi Lam**, aged 56, 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 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 33 years of experience in the securities industry.

**CHEUNG Wah Fung, Christopher, JP**, aged 51, 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 32 years of experience in the securities and financial service industry.

**ESPINA, Anthony**, aged 55, 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 ("CCASS"). He holds a Bachelor's degree in Accounting and is an Associate Member of each of the Australian Society of Certified Practising Accountants and the Hong Kong Society of Accountants, and a Certified Public Accountant.

**LEE Jor Hung, BBS**, aged 49, 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 21 years of experience in the securities industry.

**LEE Sheung Yam**, aged 49, 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 22 years of experience in the accounting and corporate finance field.

**NON-EXECUTIVE DIRECTORS** *(continued)*

**WONG Wai Sum**, aged 52, 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. 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 23 years of experience in the securities industry.

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

**CHUNG Shui Ming, Timpson, GBS, JP**, aged 52, joined the Group in December 2001. He is 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. He is also a board member of several listed companies in Hong Kong. Formerly, he was the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region 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 Society of Accountants.

**TSUI Yiu Wa, Alec**, aged 54, 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**

**CHICK Siu Yee, Eddy**, aged 46, is the Chief Executive Officer of the Group and joined the Group in November 2003. Prior to joining the Group, he was the Managing Director at Chase Manhattan Global Bank responsible for derivatives and international capital market business. Having twenty years of managerial experience in investment banking, Mr. Chick has strong corporate relationships and worked closely with central banks/regulatory bodies in Asia Pacific region which included Hong Kong Monetary Authority and People Bank of China on periodic financial products seminars/trainings. He has expertise in risk management products, fixed income/structured investment products, debt restructuring, securitization and advanced derivatives involving equity, tax, credit and commodities. Mr. Chick holds a Bachelor of Science degree, a Bachelor of Commerce (Honours Business Administration) degree and a Master of Business Administration degree.



## Directors and Senior Management Profile

### EXECUTIVE DIRECTORS *(continued)*

**SO Kin Wing**, aged 42, 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 18 years of experience in accounting and stockbroking.

### SENIOR MANAGEMENT

**CHAU Kwok Ming**, aged 41, is the Company Secretary of the Group and joined the Group in March 2001. He was also appointed as an authorised representative of the Company in September 2003. Prior to joining the Group, Mr. Chau held managerial positions in Dao Heng Bank Limited and China Light and Power Company, Limited. He is an Associate Member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries. Mr. Chau has over 15 years of experience in the corporate secretarial field.

**LEE Sing Kai, Albert**, aged 47, 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 15 years' extensive working experience in the finance and accounting fields.

**LAM Wai Yan, Josephine**, aged 39, 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 11 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 40, 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 is a member of the British Computing Society and the Institute of Electrical and Electronic Engineers and is registered as a Chartered Engineer with Engineering Council (UK). He has over 18 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 the Group for the year ended 31st December, 2003.

### **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.

Pursuant to a special resolution passed by the Company's shareholders on 28th April, 2003, the name of the Company was changed from Stockmartnet Holdings Limited 證券業合作社控股有限公司 to Stockmartnet Holdings Ltd. 金融社控股有限公司.

### **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 15 to the financial statements.

### **RESULTS**

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 22.

The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2003 (2002: 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 11 to the financial statements.

### **SHARE CAPITAL**

Details of movements in the share capital of the Company during the year are set out in note 19 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 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 Articles of Association of the Company (the "Articles" or 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 the share premium account. Accordingly, the Company's reserves available for distribution amounted to approximately HK\$35,571,000 as at 31st December, 2003.

## DIRECTORS

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

### Executive Directors

Chick Siu Yee, Eddy	<i>(Chief Executive Officer)</i>	(Appointed on 12th December, 2003)
So Kin Wing	<i>(Chief Financial Officer)</i>	
Lee Wai Hung, Alan	<i>(Chief Executive Officer)</i>	(Resigned on 20th September, 2003)

### 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	
Cheung Wah Fung, Christopher	
Espina Anthony	
Lee Jor Hung	
Lee Sheung Yam	
Wong Wai Sum	

### Independent Non-executive Directors

Chung Shui Ming, Timpson	
Tsui Yiu Wa, Alec	
Cheng Mo Chi	(Resigned on 1st June, 2003)

Each Non-executive Director has a fixed term of office of one year and should retire from office subject to rotational retirement provisions in accordance with the Company's Articles of Association. In accordance with Article 87(1) of the Articles, Mr. Chan Hung Ti and Mr. Lee Sheung Yam 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' SERVICE CONTRACTS

One of the Executive Directors has entered into a service contract with the Company for a term of four years commencing from 1st February, 2001. Another Executive Director has entered into a service contract with the Company for a term of two years commencing from 15th September 2003. Neither of the aforementioned contracts are 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2003, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the minimum standard of dealings by Directors as referred to in Rule 5.40 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"), 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%
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 <i>(note 8)</i>	4,719,000	2,574,000	7,293,000	0.96%

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(continued)***Long positions in shares of the Company** *(continued)**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. Cheung Wah Fung, Christopher was deemed to be interested in 2,574,000 shares through his controlling interest in Christfund Securities Limited.
6. Mr. Espina Anthony was deemed to be interested in 2,574,000 shares through his controlling interest in Goldride Securities Limited.
7. Mr. Lee Jor Hung was deemed to be interested in 2,574,000 shares through his controlling interest in DL Brokerage Limited.
8. Mr. Wong Wai Sum was deemed to be interested in 2,574,000 shares through his controlling interest in Hing Wong Securities Limited. Subsequent to 31st December, 2003, the Company became aware that 600,000 shares held by Mr. Wong had been transferred to two independent third parties as a gift.

**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 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.



**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(continued)*
**Long positions in underlying shares of the Company** *(continued)*

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, 2003	Lapsed during the year	Outstanding as at 31st December, 2003		
Lee Wai Hung, Alan <i>(note)</i>	17/12/2001	10,296,000	(10,296,000)	–	11/01/2004 – 16/12/2010	0.019
So Kin Wing	17/12/2001	5,148,000	–	5,148,000	11/01/2004 – 16/12/2010	0.019
		<u>15,444,000</u>	<u>(10,296,000)</u>	<u>5,148,000</u>		

*Note:*

Mr. Lee Wai Hung, Alan resigned as an executive Director with effect from 20th September, 2003.

No options were offered or granted under the Pre-IPO Share Option Plan during the year ended 31st December, 2003 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, 2003.

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 5.40 of the GEM Listing Rules.

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

### **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 5.40 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 5.40 of the GEM Listing Rules.

Save as disclosed above, as at 31st December, 2003, 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 the minimum standard of dealings by Directors as referred to in Rule 5.40 of the GEM Listing Rules.

During the year ended 31st December, 2003, there was no debt securities issued by the Group at any time.

## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31st December, 2003, 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**

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

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

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

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 66.67% in Linwood Services Ltd..
3. Linwood Services Ltd. was deemed to be interested in 58,926,000 shares through its controlling interest of 66.98% 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.

### **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 2003, 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, 2003, there was no debt securities issued by the Group at any time.

## **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.

## 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.

<b>Name of company</b>	<b>Name of Director with controlling interest</b>
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, 2003.

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 continue to 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 10% and 32% 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 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.

## **CORPORATE GOVERNANCE**

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules throughout the financial year.

## **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, 2003 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**

Messrs. HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Messrs. Deloitte Touche Tohmatsu with effect from 19th September, 2003. Save as aforesaid, there had been no other changes of the Company's auditors in the past three financial years.

A resolution for the appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board of Directors (the "Board")

**Seto John Gin Chung**

*Chairman*

Hong Kong, 26th March, 2004



## AUDITORS' REPORT



Chartered Accountants  
Certified Public Accountants

**Hodgson Impey Cheng**

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 22 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 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 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 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, 2003 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, 26th March, 2004



## Consolidated Income Statement

For the year ended 31st December, 2003

	<i>Note</i>	<b>2003</b> <b>HK\$</b>	2002 HK\$
Turnover	3	<b>5,320,157</b>	1,764,834
Other operating income	5	<b>513,279</b>	935,937
		<b>5,833,436</b>	2,700,771
Amortisation of intangible assets		<b>(593,264)</b>	(40,800)
Impairment of goodwill		<b>(191,839)</b>	–
Depreciation of property and equipment		<b>(861,792)</b>	(436,133)
Provision of compensation for termination of a server agreement	27(ii)(b)	–	(800,000)
Staff costs, including directors' remuneration		<b>(10,931,211)</b>	(14,193,707)
Other operating expenses		<b>(10,218,944)</b>	(9,876,623)
Loss before taxation	6	<b>(16,963,614)</b>	(22,646,492)
Income tax	9	–	–
Net loss for the year		<b>(16,963,614)</b>	(22,646,492)
Loss per share – basic and diluted	10	<b>(2.22) cents</b>	(3.00) 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, 2003

	Note	2003 HK\$	2002 HK\$
<b>Non-current assets</b>			
Property and equipment	11	1,603,186	2,486,491
Intangible assets	12	2,698,096	1,183,200
Statutory deposits	14	2,255,000	355,000
		<hr/> 6,556,282	<hr/> 4,024,691
<b>Current assets</b>			
Trade receivables	16	10,958,786	6,236,325
Other amounts receivable, prepayments and deposits		550,232	3,151,981
Bank balances and cash		35,153,841	46,244,220
		<hr/> 46,662,859	<hr/> 55,632,526
<b>Current liabilities</b>			
Trade payables	17	15,298,828	1,814,752
Other amounts payable and accrued charges		608,452	3,566,990
		<hr/> 15,907,280	<hr/> 5,381,742
<b>Net current assets</b>		<hr/> 30,755,579	<hr/> 50,250,784
<b>Net assets</b>		<hr/> 37,311,861	<hr/> 54,275,475
<b>Capital and reserves</b>			
Share capital	19	7,648,860	7,648,860
Share premium		80,974,438	80,974,438
Special reserve	20	4,778,740	4,778,740
Accumulated losses		(56,090,177)	(39,126,563)
<b>Total capital and reserves</b>		<hr/> 37,311,861	<hr/> 54,275,475

The financial statements on pages 22 to 53 were approved and authorised for issue by the Board of Directors on 26th March, 2004 and are signed on its behalf by:

**Chick Siu Yee, Eddy**  
Director

**So Kin Wing**  
Director

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





## Balance Sheet

As at 31st December, 2003

	<i>Note</i>	<b>2003</b> HK\$	2002 HK\$
<b>Non-current assets</b>			
Property and equipment	11	<b>905,255</b>	1,230,337
Investments in subsidiaries	15	<b>4,771,260</b>	4,771,260
		<b>5,676,515</b>	6,001,597
<b>Current assets</b>			
Other amounts receivable, prepayments and deposits		<b>439,756</b>	426,767
Amounts due from subsidiaries	18	<b>44,638,402</b>	42,690,314
Bank balances and cash		<b>1,896,208</b>	6,139,923
		<b>46,974,366</b>	49,257,004
<b>Current liabilities</b>			
Other amounts payable and accrued charges		<b>286,995</b>	656,495
Amounts due to subsidiaries		<b>9,144,037</b>	2,956,012
		<b>9,431,032</b>	3,612,507
<b>Net current assets</b>		<b>37,543,334</b>	45,644,497
<b>Net assets</b>		<b>43,219,849</b>	51,646,094
<b>Capital and reserves</b>			
Share capital	19	<b>7,648,860</b>	7,648,860
Share premium		<b>80,974,438</b>	80,974,438
Accumulated losses		<b>(45,403,449)</b>	(36,977,204)
<b>Total capital and reserves</b>		<b>43,219,849</b>	51,646,094

**Chick Siu Yee, Eddy**  
*Director*

**So Kin Wing**  
*Director*

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

## Statements of Changes in Equity

For the year ended 31st December, 2003

	<b>Share capital</b> HK\$ <i>(Note 19)</i>	<b>Share premium</b> HK\$	<b>Special reserve</b> HK\$ <i>(Note 20)</i>	<b>Accumulated losses</b> HK\$	<b>Total</b> HK\$
<b>The Group</b>					
As 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
Issue of shares to purchase a trading right in the Stock Exchange	37,920	436,080	–	–	474,000
Share issue expenses	–	(13,392,366)	–	–	(13,392,366)
Net loss for the year	–	–	–	(22,646,492)	(22,646,492)
As at 31st December, 2002 and 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)
<b>As at 31st December, 2003</b>	<b>7,648,860</b>	<b>80,974,438</b>	<b>4,778,740</b>	<b>(56,090,177)</b>	<b>37,311,861</b>
<b>The Company</b>					
As 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
Issue of shares to purchase a trading right in the Stock Exchange	37,920	436,080	–	–	474,000
Share issue expenses	–	(13,392,366)	–	–	(13,392,366)
Net loss for the year	–	–	–	(36,072,726)	(36,072,726)
As at 31st December, 2002 and 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)
<b>As at 31st December, 2003</b>	<b>7,648,860</b>	<b>80,974,438</b>	<b>–</b>	<b>(45,403,449)</b>	<b>43,219,849</b>

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

# Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	Note	2003 HK\$	2002 HK\$
<b>OPERATING ACTIVITIES</b>			
Loss before taxation		<b>(16,963,614)</b>	(22,646,492)
Adjustments for:			
Depreciation of property and equipment		<b>861,792</b>	436,133
Amortisation of intangible assets		<b>593,264</b>	40,800
Impairment of goodwill		<b>191,839</b>	–
Loss on disposal of property and equipment		<b>122,672</b>	5,118
Interest expenses		<b>24,180</b>	–
Interest income		<b>(434,811)</b>	(843,371)
Operating loss before movements in working capital		<b>(15,604,678)</b>	(23,007,812)
Increase in statutory deposits		<b>(300,000)</b>	(355,000)
Increase in trade receivables		<b>(4,722,461)</b>	(5,804,596)
Decrease in deferred expenditure		–	9,973,577
Decrease/ (increase) in other amounts receivable, prepayments and deposits		<b>5,313,749</b>	(2,611,070)
Increase in bank trust account		<b>(7,573,473)</b>	(642,445)
Increase in trade payables		<b>13,483,156</b>	1,408,225
Decrease in other amounts payable and accrued charges		<b>(2,977,368)</b>	(13,895,824)
Cash used in operations		<b>(12,381,075)</b>	(34,934,945)
Interest paid		<b>(24,180)</b>	–
Interest received		<b>434,811</b>	843,371
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(11,970,444)</b>	(34,091,574)
<b>INVESTING ACTIVITIES</b>			
Purchase of a trading right		–	(750,000)
Purchase of property and equipment		<b>(107,071)</b>	(2,601,516)
Acquisition of a subsidiary, net of cash acquired	21	<b>(6,593,169)</b>	–
Sale of property and equipment		<b>5,912</b>	–
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(6,694,328)</b>	(3,351,516)
<b>FINANCING ACTIVITIES</b>			
Net proceeds from issue of shares		–	82,778,034
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		–	82,778,034



## Consolidated Cash Flow Statement

For the year ended 31st December, 2003

	<i>Note</i>	<b>2003</b> <b>HK\$</b>	2002 HK\$
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		<b>(18,664,772)</b>	45,334,944
Cash and cash equivalents at beginning of the year		<b>45,601,775</b>	266,831
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<b>26,937,003</b>	45,601,775
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		<b>35,153,841</b>	46,244,220
Less: Trust account balances		<b>(8,216,838)</b>	(642,445)
		<b>26,937,003</b>	45,601,775

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



# Notes to the Financial Statements

For the year ended 31st December, 2003

## 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 Statements of Standard Accounting Practice ("SSAP") and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the GEM Listing Rules. The financial statements have been prepared under the historical cost convention.

In the current year, the Group has adopted SSAP 12 (revised) "Income taxes". The principal effect of the implementation of SSAP 12 (revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arisen, except for those timing differences that were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (revised), the new accounting policy has been applied retrospectively. This change in accounting policy has not had any material effect for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

## 2. 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, 2003

### 2. 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.

Advertising revenue is recognised when services are provided.

#### 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, 2003

### 2. 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. Taxation

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 substantially 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 substantially 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.

#### 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 into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **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 lease 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.

#### **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.





## Notes to the Financial Statements

For the year ended 31st December, 2003

### 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### 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.

### 3. TURNOVER

Turnover represents the net invoiced value for the 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:

	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
Income from trading platform	<b>365,788</b>	1,413,972
Commission income/ Infrastructure broking service fees	<b>4,744,708</b>	325,455
Interest income from clients	<b>209,661</b>	25,407
	<b>5,320,157</b>	1,764,834

### 4. 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



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 4. 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\$
<b>Revenues</b>			
Turnover	365,788	4,954,369	5,320,157
<b>Results</b>			
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)

#### Income statement for the year ended 31st December, 2002

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



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 4. 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\$
<b>Assets</b>			
Segment assets	233,921	48,738,539	48,972,460
Unallocated corporate assets			4,246,681
			<b>53,219,141</b>
<b>Liabilities</b>			
Segment liabilities	12,284	15,608,001	15,620,285
Unallocated corporate liabilities			286,995
			<b>15,907,280</b>

#### Balance sheet as at 31st December, 2002

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



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 4. 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

#### 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

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.



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 5. OTHER OPERATING INCOME

	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
CCASS fee income	<b>51,843</b>	2,258
Handling fee income	<b>66,003</b>	–
Interest income on bank deposits	<b>154,819</b>	817,964
Other interest income	<b>70,331</b>	–
Recovery of doubtful debts	<b>12,990</b>	–
Sundry income	<b>157,293</b>	115,715
	<b>513,279</b>	935,937

### 6. LOSS BEFORE TAXATION

	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
Loss before taxation has been arrived at after charging/ (crediting):		
Auditors' remuneration	<b>100,000</b>	275,000
Loss on disposal of property and equipment	<b>122,672</b>	5,118
Operating lease rentals in respect of rented office premises	<b>1,580,157</b>	984,707
Allowance for bad and doubtful debts	–	186,578
Reversal of provision for portal designer fee	–	(552,000)

### 7. DIRECTORS' REMUNERATION

	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
Directors' fees paid to Independent Non-executive Directors	<b>200,000</b>	300,000
Other emoluments paid to Executive Directors:		
Salaries and other benefits	<b>4,626,000</b>	7,900,000
Contributions to Mandatory Provident Fund Scheme	<b>21,000</b>	153,500
Total emoluments	<b>4,847,000</b>	8,353,500

During the year, the emoluments paid to Independent Non-executive Directors as disclosed above were paid to two Independent Non-executive Directors of HK\$100,000 (2002: HK\$100,000), and HK\$100,000 (2002: HK\$100,000) respectively. The emoluments paid to Executive Directors as disclosed above were paid to three Executive Directors of HK\$3,259,000 (2002: HK\$4,612,500), and HK\$1,212,000 (2002: HK\$1,230,000), and HK\$176,000 (2002: Nil) 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, 2003

### 8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2002: three) were Directors of the Company whose emoluments are included in note 7 to the financial statements. The emoluments of the remaining three (2002: two) individuals were as follows:

	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
Salaries and other benefits	<b>2,036,000</b>	1,585,355
Contributions to Mandatory Provident Fund Scheme	<b>36,000</b>	51,368
	<b>2,072,000</b>	1,636,723

Their emoluments were within the following bands:

	<b>2003</b>	2002
	<b>No. of</b>	No. of
	<b>employees</b>	employees
Nil to HK\$1,000,000	<b>2</b>	1
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1


### 9. 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 (2002: Nil).

Details of potential deferred tax not provided for are set out in note 23 to the financial statements.

### 10. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31st December, 2003 is based on the net loss of the Group of HK\$16,963,614 (2002: HK\$22,646,492) and 764,886,000 ordinary shares (2002: weighted average of 754,534,307 ordinary shares) 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, 2003

### 11. PROPERTY AND EQUIPMENT

	<b>Leasehold improvements</b>	<b>Office equipment and furniture</b>	<b>Computer equipment</b>	<b>Total</b>
	HK\$	HK\$	HK\$	HK\$
<b>THE GROUP</b>				
COST				
As at 1st January, 2003	958,252	978,356	1,077,958	3,014,566
Additions	39,991	11,300	55,780	107,071
Disposals/written off	–	(83,010)	(71,610)	(154,620)
<b>As at 31st December, 2003</b>	<b>998,243</b>	<b>906,646</b>	<b>1,062,128</b>	<b>2,967,017</b>
ACCUMULATED DEPRECIATION				
As at 1st January, 2003	146,830	296,279	84,966	528,075
Provided for the year	198,892	308,861	354,039	861,792
Eliminated on disposals/ written off	–	(14,101)	(11,935)	(26,036)
<b>As at 31st December, 2003</b>	<b>345,722</b>	<b>591,039</b>	<b>427,070</b>	<b>1,363,831</b>
NET BOOK VALUES				
<b>As at 31st December, 2003</b>	<b>652,521</b>	<b>315,607</b>	<b>635,058</b>	<b>1,603,186</b>
As at 31st December, 2002	811,422	682,077	992,992	2,486,491



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 11. PROPERTY AND EQUIPMENT (continued)

	<b>Leasehold improvements</b>	<b>Office equipment and furniture</b>	<b>Computer equipment</b>	<b>Total</b>
	HK\$	HK\$	HK\$	HK\$
<b>THE COMPANY</b>				
COST				
As at 1st January, 2003	958,252	230,729	304,232	1,493,213
Additions	–	4,800	46,000	50,800
<b>As at 31st December, 2003</b>	<b>958,252</b>	<b>235,529</b>	<b>350,232</b>	<b>1,544,013</b>
ACCUMULATED DEPRECIATION				
As at 1st January, 2003	146,830	52,572	63,474	262,876
Provided for the year	191,650	77,710	106,522	375,882
<b>As at 31st December, 2003</b>	<b>338,480</b>	<b>130,282</b>	<b>169,996</b>	<b>638,758</b>
NET BOOK VALUES				
<b>As at 31st December, 2003</b>	<b>619,772</b>	<b>105,247</b>	<b>180,236</b>	<b>905,255</b>
As at 31st December, 2002	811,422	178,157	240,758	1,230,337





## Notes to the Financial Statements

For the year ended 31st December, 2003

### 12. INTANGIBLE ASSETS

#### THE GROUP

	HK\$
COST	
As at 1st January, 2003	1,224,000
Addition through acquisition of a subsidiary ( <i>note i</i> )	868,000
Other addition ( <i>note ii</i> )	1,500,000
	<hr/>
<b>As at 31st December, 2003</b>	<b>3,592,000</b>
ACCUMULATED AMORTISATION	
As at 1st January, 2003	40,800
Through acquisition of a subsidiary ( <i>note i</i> )	259,840
Provided for the year	593,264
	<hr/>
<b>As at 31st December, 2003</b>	<b>893,904</b>
NET BOOK VALUES	
<b>As at 31st December, 2003</b>	<b>2,698,096</b>
	<hr/> <hr/>
As at 31st December, 2002	1,183,200
	<hr/> <hr/>

The intangible assets as at 31st December, 2003 represent two trading rights in the Stock Exchange and one trading right in the Hong Kong Futures Exchange Limited ("HKFE").

*Notes:*

- i. The trading right in the HKFE was acquired through the acquisition of a subsidiary as disclosed in note 21 to the financial statements.
- ii. During the year, the Group acquired a trading right in the Stock Exchange at a cost of HK\$1,500,000.

### 13. GOODWILL

	HK\$
THE GROUP	
Addition through acquisition of a subsidiary ( <i>note 21</i> )	191,839
Impairment loss recognised	(191,839)
	<hr/>
As at 31st December, 2003	–
	<hr/> <hr/>

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.



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 14. STATUTORY DEPOSITS

	THE GROUP	
	2003 HK\$	2002 HK\$
Hong Kong Securities Clearing Company Limited ("HKSCC")		
– contribution fund deposit	100,000	50,000
– admission fee deposit	100,000	50,000
The Stock Exchange		
– compensation fund deposit	100,000	50,000
– fidelity fund deposit	100,000	50,000
– stamp duty deposit	5,000	5,000
HKFE Clearing Corporation Limited ("HKFECC")		
– reserve fund deposit	1,500,000	–
HKFE		
– compensation fund deposit	100,000	–
Securities and Futures Commission ("SFC")		
– deposits for responsible officers	250,000	150,000
	<b>2,255,000</b>	<b>355,000</b>

### 15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$	2002 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).

Details of the Company's subsidiaries as at 31st December, 2003 are as follows:

Name of company	Place and 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



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 15. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place and 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 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 (Formerly known as CU 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 (Formerly known as Stockmartnet Websites 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, 2003

### 16. TRADE RECEIVABLES

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
Accounts receivable arising from equities broking:		
Margin clients	<b>1,979,407</b>	4,332,702
Cash clients	<b>4,406,164</b>	470,755
HKSCC (net)	–	1,226,190
Accounts receivable arising from futures broking:		
Brokers and dealers	<b>4,170,747</b>	–
HKFECC	<b>359,510</b>	–
Other trade receivables	<b>42,958</b>	206,678
	<b>10,958,786</b>	6,236,325

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 a market value of approximately HK\$42,457,000 as at 31st December, 2003 (2002: HK\$37,718,000). 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 as at the balance sheet date:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
0 – 30 days	<b>42,958</b>	37,270
31 – 60 days	–	–
61 – 90 days	–	13,572
Over 90 days	–	155,836
	<b>42,958</b>	206,678



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 17. TRADE PAYABLES

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
Accounts payable arising from equities broking:		
Margin clients	<b>2,180,711</b>	505,835
Cash clients	<b>7,733,790</b>	708,566
HKSCC (net)	<b>807,277</b>	–
Accounts payable arising from futures broking:		
Clients	<b>4,315,782</b>	–
Other trade payables	<b>261,268</b>	600,351
	<b>15,298,828</b>	1,814,752

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.



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 17. TRADE PAYABLES (continued)

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

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
0 – 30 days	<b>261,268</b>	18,829
31 – 60 days	–	276,600
61 – 90 days	–	304,922
	<b>261,268</b>	600,351

### 18. AMOUNTS DUE FROM SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2003</b>	2002
	<b>HK\$</b>	HK\$
Amounts due from subsidiaries	<b>66,638,402</b>	64,690,314
Allowance	<b>(22,000,000)</b>	(22,000,000)
	<b>44,638,402</b>	42,690,314

During the year ended 31st December, 2002, 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, had been recognised to reduce the carrying amount to the estimated recoverable amounts.



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 19. SHARE CAPITAL

	Number of shares		2003 HK\$	2002 HK\$
	2003	2002		
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning of the year and at end of the year	<b>10,000,000,000</b>	10,000,000,000	<b>100,000,000</b>	100,000,000
Issued and fully paid:				
At beginning of the year	<b>764,886,000</b>	508,014,000	<b>7,648,860</b>	5,080,140
Issue on public flotation (note (i))	-	253,080,000	-	2,530,800
Issue for purchase of a trading right (note (ii))	-	3,792,000	-	37,920
At end of the year	<b>764,886,000</b>	764,886,000	<b>7,648,860</b>	7,648,860

Notes:

- i. 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.
- ii. 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.

### 20. 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, 2003

### 21. 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.

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

The subsidiary acquired during the year contributed revenue of HK\$417,123 and a loss of HK\$1,238,055 for the period between the date of acquisition and 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, 2003

### 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 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 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 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.



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 22. SHARE OPTION SCHEMES (continued)

#### ii. Pre-IPO Share Option Plan (continued)

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 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. During the year ended 31st December, 2003, 10,296,000 options under Pre-IPO Share Option Plan were lapsed.

### 23. DEFERRED TAX

No deferred tax liabilities are recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of liabilities and their carrying amounts as at 31st December, 2002 and 2003.

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, 2003, the unprovided deferred tax asset of the Group and of the Company are as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Tax effect of timing difference attributable to estimated tax losses	<b>9,755,696</b>	6,462,063	<b>4,019,703</b>	2,452,146



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 24. RELATED PARTY TRANSACTIONS

During the year ended 31st December, 2002, an amount of rentals totaling HK\$150,000 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 31st December, 2002, rentals of HK\$50,000 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. The outstanding rentals were subsequently repaid during the year ended 31st December, 2003.

During the year ended 31st December, 2002, the Group had received fees income and service charges in relation to the operation of a trading engine of HK\$394,391 from companies in which certain Non-executive Directors of the Company have beneficial interests. As at 31st December, 2002, an amount of HK\$194,600 remained outstanding and was included in trade receivables. The transactions were carried out on terms similar to those applicable to transactions with unrelated parties. The outstanding fees income and service charges were subsequently settled during the year ended 31st December, 2003.

### 25. NON-CASH TRANSACTION

During the year ended 31st December, 2003, the Group did not have any significant non-cash transaction. During the year ended 31st December, 2002, the Company issued 3,792,000 new 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 LIABILITIES

The Company has given a guarantee to a bank in respect of a general facility of HK\$45,000,000 (2002: HK\$90,000,000) granted to one of its subsidiaries. At the balance sheet date, such facility was not utilised by the subsidiary (2002: Nil).

The Group has given a charge over margin clients' securities in favour of a bank in respect of a general facility granted to one of its subsidiaries to finance subscription for shares on behalf of the margin clients. At the balance sheet date, such facility was not utilised by the subsidiary (2002: Nil).



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 27. 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	
	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$
Within one year	<b>959,988</b>	1,580,157	<b>959,988</b>	1,580,157
In the second to fifth years inclusive	<b>79,999</b>	1,039,987	<b>79,999</b>	1,039,987
	<b>1,039,987</b>	2,620,144	<b>1,039,987</b>	2,620,144

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

#### ii. Financial commitments

- (a) 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.



## Notes to the Financial Statements

For the year ended 31st December, 2003

### 27. COMMITMENTS (continued)

#### ii. Financial commitments (continued)

- (b) 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.

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 Server 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 ended 31 December 2002, due to certain commercial reasons, the Group had 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. 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.

### 28. 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\$125,000 (2002: HK\$434,000). 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. 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\$106,000 (2002: HK\$90,000).



## *Notes to the Financial Statements*

*For the year ended 31st December, 2003*

### **29. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with the current year's presentation. In particular, the operating expenses for trading platform services, previously separately disclosed on the face of the consolidated income statement, has been reclassified and included in "Other operating expenses" in the consolidated income statement.

### **30. POST BALANCE SHEET EVENTS**

The Board received a letter from the financial advisers to a potential investor ("Investor") on 18th February, 2004 indicating an interest in initiating discussions on behalf of the Investor subscribing for new shares in the Company ("Subscription") with a view towards acquiring a controlling stake ("First Proposal"). The Investor may make a general offer for the remaining shares of the Company assuming and upon completion of the Subscription. The Investor's joint financial advisers subsequently submitted a second proposal ("Revised Proposal") to the Board for consideration.

The Board confirmed that the First Proposal was no longer under consideration and the Revised Proposal is in the early stages of negotiation. Up to the date of this report, no binding agreement has been signed.

Save as disclosed above, the details of which have been disclosed in the announcements of the Company dated 23rd February, 2004 and 3rd March, 2004, the Group and the Company has no other significant post balance sheet events.



## 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.

	<b>1.1.2003 to 31.12.2003 HK\$</b>	1.1.2002 to 31.12.2002 HK\$	1.1.2001 to 31.12.2001 HK\$	8.3.2000 to 31.12.2000 HK\$
<b>RESULTS</b>				
Turnover	<b>5,320,157</b>	1,764,834	521,030	–
Loss before taxation	<b>(16,963,614)</b>	(22,646,492)	(15,482,890)	(997,181)
Income tax	–	–	–	–
Loss attributable to shareholders	<b>(16,963,614)</b>	(22,646,492)	(15,482,890)	(997,181)
	<b>2003 HK\$</b>	2002 HK\$	2001 HK\$	2000 HK\$
<b>ASSETS AND LIABILITIES</b>				
Total assets	<b>53,219,141</b>	59,657,217	11,539,274	8,671,338
Total liabilities	<b>(15,907,280)</b>	(5,381,742)	(17,869,341)	(9,168,519)
Net asset/ (liabilities)	<b>37,311,861</b>	54,275,475	(6,330,067)	(497,181)