



國際金融社控股有限公司  
**INTERNATIONAL FINANCIAL NETWORK HOLDINGS LTD.**

*(Incorporated in the Cayman Islands with limited liability)*  
(Formerly known as "STOCKMARTNET HOLDINGS LTD. 金融社控股有限公司")

Stock Code: 8123

Annual Report **2005**



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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.**

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

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

## CORPORATE INFORMATION

### Executive Directors

Richard Yingneng Yin (*Chairman*)  
Seah Chin Yew (*CEO*)  
Lee Yiu Sun

### Non-executive Director

Kennedy Wong Ying Ho

### Independent Non-executive Directors

Michael Wu Wai Chung  
Japhet Sebastian Law  
Tsang Hing Lun

### Compliance Officer

Lee Yiu Sun, FCPA

### Qualified Accountant

Lee Yiu Sun, FCPA

### Company Secretary

Lok Chee Min

### Composition of Board Committees

#### *Audit Committee*

Tsang Hing Lun (*Chairman*)  
Michael Wu Wai Chung  
Japhet Sebastian Law

#### *Nomination Committee*

Japhet Sebastian Law (*Chairman*)  
Richard Yingneng Yin  
Tsang Hing Lun

#### *Remuneration Committee*

Japhet Sebastian Law (*Chairman*)  
Richard Yingneng Yin  
Tsang Hing Lun

### 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

19th Floor V-Heun Building  
138 Queen's Road Central  
Hong Kong

### Company Website

www.ifn.hk

### Stock Code

8123

### Principal Banker

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

### Auditors

HLB Hodgson Impey Cheng  
31st Floor Gloucester Tower  
The Landmark, 11 Pedder Street  
Central, Hong Kong

### Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited  
P.O. Box 705 Butterfield House  
68 Fort Street, George Town  
Grand Cayman  
British West Indies

### Hong Kong Branch Share Registrar and Transfer Office

Hong Kong Registrars Limited  
46th Floor Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## CHAIRMAN'S STATEMENT

Dear fellow shareholders,

Since inception, the strategy for growth of the Company and its subsidiaries (the "Group") has centered on establishing itself as a full service provider of financial and back office services to securities brokers and licensed persons. Following the completion of a share subscription exercise, pursuant to which the working capital of the Company was substantially strengthened by more than HK\$30 million and a new board of directors was appointed, the Group embarked on a long-term strategy of transforming itself into a full financial service investment bank within the Asia Pacific Region. The Group endeavours to pursue this strategy while embracing a focused principal investment and management business model across our regional platform. In essence, our business model seeks, where possible, to use our capital to create investment opportunities and ongoing management roles in investee companies, supported by our strong financial advisory and structuring expertise. We believe that success comes from creating added value by leveraging on our regional transaction origination capabilities, and our focused project management skills.

Recognising this change in business model, our Group started to build or enhance our internal capabilities, regional presence, and infrastructure, such as corporate structure, branch offices, processes and technology platform to support a sustainable business and to position ourselves for further growth. As part of this ongoing program and with minimal additional cost, we have recruited a number of senior staff and started a corporate finance division. It is encouraging to note that the Corporate Finance Division has started to produce income in a short period of time.

Adding to this strategy was the establishment of our first overseas subsidiary in Singapore in June 2005. This subsidiary is currently registered with the Monetary Authority of Singapore as an exempt corporate finance adviser, and its principal business is advising on corporate finance activities. As part of this overseas expansion strategy, the Company intends to establish further overseas subsidiaries or offices and is actively looking at Beijing, Tokyo and other cities that will enhance the sustainability of our business model.

Also, as part of the "seeding" development activities across all three areas of potential growth (platform; full financial service investment bank, and focused principal investment) in the Group's overall business model, the Group successfully acquired 29.9% of the issued capital of Tastyfood Holdings Ltd., a company listed on the Mainboard of the Singapore Stock Exchange. This acquisition is expected to be of short to medium-term nature and the Company believes disposal of this investment would deliver significant benefits to the shareholders of the Company.

To reposition the Group for the longer term, the Group embarked on a new branding strategy and corporate identity for the Group, together with a renewed focus on developing an international outlook.

To reflect this focus, the Company through a special resolution passed on 8 March 2006, changed its name from "Stockmartnet Holdings Ltd. 金融社控股有限公司" to "International Financial Network Holdings Ltd. 國際金融社控股有限公司".

## Chairman's Statement

### BUSINESS REVIEW

As in previous years, the details of the Company's results are recorded in a very transparent way in the management discussion and analysis report that follows. However, the Company believes the results are not indicative of future performance of the Company and is of the view that a momentum has been built with which the Company should expect improved performance. The Company endeavours to continue to deliver to its full potential.

### CORPORATE GOVERNANCE

During the year, the Board spent considerable time reviewing strategic direction and alternatives. We continued to develop and enhance the corporate governance framework and we looked closely at the structure and composition of our Board and committees so as to achieve ongoing best practice.

The Company is of a view that business ethics play an important part in our Group's activities and that strong corporate governance aligns the interests of all stakeholders. A performance culture within a robust governance framework will deliver increased returns. More information about our approach is included in the Corporate Governance section of this report.

### OUTLOOK

With the working capital being substantially strengthened following the share subscriptions, as well as the subsequent installment of a new management team, the Group will continue to pursue more business opportunities and diversify its revenue base. Apart from enhancing its securities and futures brokering services, it will also endeavour to expand its corporate finance activities, focus on direct investments in private and public companies, as well as take strategic proprietary positions in private companies that have potentials for listing.

As described earlier, our ongoing program of change is expected to deliver real improvements to the way we do business and our results. The Board expects further benefits of this program to be realized over the next 12 months.

In final reflection of the year, it is appropriate to note that the changes in our strategy would not have been possible without the dedication of our previous Board, which resigned on 1 June 2005. We would wish to record our thanks to them for their dedication, and their contributions.

The Board would also like to acknowledge and thank our investors, shareholders, staff and others who have shown unflinching support for the Company and look forward to an exciting and productive year.

Finally, my personal thanks go to the new Board for their hard work and commitment over the course of the past year.

**Richard Yingneng Yin**

*Chairman*

Hong Kong, 24th March, 2006

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The turnover of the Group was approximately HK\$91,910,000 for the year ended 31st December, 2005 (2004: approximately HK\$6,737,000). This represented an increase of about 13.6 times from that of the previous year. This was mainly due to increased trading and principal investment activities of the Group in an improving investment market and economy. During the year, the Group continued to implement tight control measures on all expenses. The loss attributable to shareholders for the year ended 31st December, 2005 was approximately HK\$12,023,000 compared with the loss of approximately HK\$10,758,000 of the corresponding period in 2004.

## LIQUIDITY AND FINANCIAL RESOURCES

The working capital of the Group has been substantially strengthened by approximately HK\$31,000,000 following share subscription exercises in the second quarter of 2005. As at 31st December, 2005, the Group had total assets of approximately HK\$52,239,000 (2004: approximately HK\$39,093,000), including bank balances and cash of approximately HK\$32,266,000 (2004: approximately HK\$24,865,000). The Group did not incur any bank overdraft or loan for the year ended 31st December, 2005. As at 31st December, 2005, 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 funds. With net current assets of approximately HK\$40,769,000, the Group remained in a financially liquid position as at 31st December, 2005 and could maintain the current line of business.

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

## EMPLOYEES' INFORMATION

As at 31st December, 2005, the Group had a workforce of 18 employees (2004: 10). For the year ended 31st December, 2005, the total staff costs amounted to approximately HK\$6,810,000 (2004: approximately HK\$6,877,000). The Group's remuneration policies are determined on the basis of the performance and experience of individual employees.

## CAPITAL STRUCTURE

On 29th April, 2005, 1,000,000,000 shares of HK\$0.01 each were issued by way of subscription at a subscription price of HK\$0.026 per share. On 1st June, 2005, 5,148,000 shares of HK\$0.01 each were issued at a subscription price of approximately HK\$0.019 per share by exercise of options granted under the Pre-IPO Share Option Plan. On 29th June, 2005, 280,000,000 shares of HK\$0.01 each were issued at a subscription price of HK\$0.026 per share by exercise of options granted under a share subscription agreement. The capital of the Company comprises only ordinary shares. The Company and the Group have no borrowings and long-term debts.

## Management Discussion and Analysis

### **SIGNIFICANT INVESTMENTS**

The Group entered into an acquisition agreement pursuant to which the Group agreed to purchase and a third party agreed to sell approximately 29.9% of the issued share capital of Tastyfood Holdings Ltd., a Singapore listed company, for a consideration of S\$2,440,000 (equivalent to approximately HK\$11,224,000). The acquisition was completed on 10th March 2006.

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

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

### **CHARGES ON GROUP ASSETS**

As at 31st December, 2005, the Group did not have any charges on its assets.

### **CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities as at 31st December, 2005.

**Dr. Seah Chin Yew**

*Chief Executive Officer*

Hong Kong, 24th March, 2006



## DIRECTORS AND SENIOR MANAGEMENT PROFILE

### EXECUTIVE DIRECTORS

**Mr. Richard Yingneng Yin**, aged 53, is the Chairman of the Company and joined the Group in May 2005. Mr. Yin has over 10 years of experience in various regulatory organizations. He held senior positions in the Australian Securities and Investments Commission, the New South Wales Corporate Affairs Commission, and the Securities & Futures Commission of Hong Kong. Mr. Yin was the Deputy Chief Executive Officer of a company listed on the main board of the Stock Exchange of Hong Kong Limited and the President of a company listed on the GEM. He is a fellow member of the Institute of Chartered Accountants of both England & Wales and Australia.

**Dr. Seah Chin Yew**, aged 33, is the Chief Executive Officer of the Company and joined the Group in May 2005. Dr. Seah was formerly the President and Chief Executive Officer of Japan Asia Limited, a company listed on the main board of the SGX. He was a former chairman of a main board listed company in Singapore which was principally engaged in property and construction business. Dr. Seah also held various senior positions in companies in Singapore, Hong Kong, Japan and the United States. Dr. Seah holds a Doctorate of Philosophy in Business Administration from Burkes University, United Kingdom, a Master of Advanced Business Practice from University of South Australia, a Master of Business Administration from University of Dubuque, Iowa USA and a Bachelor of Commerce (Degree in Accountancy and Finance) from University of Western Australia.

Dr. Seah was included as Singapore's Who's Who 2003 by Prestige magazine, and International Who's Who Professional by International Who's Who Historical Society.

**Mr. Lee Yiu Sun**, aged 48, is the Executive Director, Chief Financial Officer, Compliance Officer and Qualified Accountant of the Company and joined the Group in May 2000. Mr. Lee has over 18 years of experience in the securities and financial service sector. He has been a Vice-Chairman of the Hong Kong Stockbrokers Association since 1997. Mr. Lee was formerly the executive director of a securities company. Prior to joining the securities company, he was the managing director of a main board listed company. Mr. Lee was a Council Member of the Stock Exchange of Hong Kong 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 Fellow of the Hong Kong Institute of Certified Public Accountants.

### NON-EXECUTIVE DIRECTOR

**Mr. Kennedy Wong Ying Ho**, aged 43, is a Non-executive Director of the Company and joined the Group in September 2005. Mr. Kennedy Wong, B.B.S., JP, is a solicitor of the High Court of Hong Kong SAR and China Appointed Attesting Officer. He is the Managing Partner of Philip K H Wong, Kennedy Y H Wong & Co, Solicitors & Notaries. He is a National Committee Member of the Chinese People's Political Consultative Conference and a vice chairman of the All-China Youth Federation. Mr. Wong is the executive deputy chairman of Raymond Industrial Limited, a Hong Kong Main Board listed company controlled by his family and a director of China Overseas Land & Investment Ltd., Goldlion Holdings Limited, Qin Jia Yuan Media Services Company Limited and Capinfo Company Limited, all of which are Hong Kong listed companies. He is also a director of AXA Asia Pacific Holdings Limited, National Mutual Life Association of Australasia Limited, and Computime Limited, all are multi-national companies with substantial investments in China.

## Directors and Senior Management Profile

Mr. Wong was selected as one of the 10 Outstanding Young Persons of Hong Kong by the then Hong Kong Junior Chamber in 1998 and one of the Outstanding 10 Young Persons of the World by the Junior Chamber International in 2003.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Michael Wu Wai Chung**, aged 56, joined the Group in June 2005. Mr. Wu was formerly the Deputy Chairman of the Shanghai Stock Exchange and a Commissioner in the Strategy & Development Committee of the Chinese Securities Regulatory Commission of the PRC. Prior to that, he was the former deputy chairman, chief operating officer and an executive director of the Securities and Futures Commission of Hong Kong. Mr. Wu currently holds directorships in three main board listed companies in Hong Kong, namely, Shenzhen Investment Ltd, Interchina Holdings Company Ltd and SW Kingsway Capital Holdings Limited, and a company listed on the GEM, namely, First Mobile Group Holdings Limited.

**Mr. Japhet Sebastian Law**, aged 54, joined the Group in June 2005. Mr. Law obtained his Ph.D. in Mechanical/Industrial Engineering from the University of Texas at Austin in 1976. He joined the Chinese University of Hong Kong in 1986. He was the Associate Dean and subsequently the Dean of the Faculty of Business Administration of the Chinese University of Hong Kong from 1993 until 2002. Mr. Law was the Director of Operations Research at the Cullen College of Engineering and Director of Graduate Studies in Industrial Engineering at the University of Houston, and was also involved with the U.S. Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. Mr. Law has served on the boards and acted as consultants with various corporations in Hong Kong and overseas. He is also active in public services, having served as Member of the Provisional Regional Council of the Hong Kong SAR Government. Mr. Law is currently a Professor in the Department of Decision Sciences and Managerial Economics and the Director of the Aviation Policy and Research Center at the Chinese University of Hong Kong. He is also a Member of the Air Transport Licensing Authority and the Solicitors Appeals Tribunal.

**Mr. Tsang Hing Lun**, aged 56, joined the Group in June 2005. Mr. Tsang is the CEO of Influential Consultants Limited and an Independent Non-Executive Director of Beijing Media Corporation Limited, which is listed on the Stock Exchange of Hong Kong. He is also a Fellow Member of the Hong Kong Institute of Directors, Association of Certified Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Tsang graduated from the Chinese University of Hong Kong with a bachelor degree in business administration (1st Class Hons.) in 1973. Mr. Tsang has served in a senior management capacity in several reputable publicly listed companies in Hong Kong and Singapore. Mr. Tsang joined the Hang Seng Bank group in 1973 and served in the group for 17 years. He acted as the assistant general manager of the planning and development division of Hang Seng Bank before joining the UOB Group in Singapore in 1990 as its Head of International Branches Division and First Vice President. After working in the UOB Group, Mr. Tsang returned to Hong Kong in 1992 and acted as an executive director of the Stock Exchange of Hong Kong in 1993, an executive director of China Champ Group in 1994, an alternate chief executive and deputy general manager of the China Construction Bank, Hong Kong Branch, from 1995 to 1998, and an executive director of DigiTel Group Limited, a company listed on the GEM, from 2000 to 2001.

# 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, 2005.

## 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 duly passed by the Company's shareholders on 8th March, 2006, the name of the Company was changed from "Stockmartnet Holdings Ltd. 金融社控股有限公司" to "International Financial Network Holdings Ltd. 國際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 19 to the financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 26.

The Directors do not recommend the payment of a dividend nor transfer of any amount to reserves for the year ended 31st December, 2005 (2004: Nil).

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year are set out in note 16 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 28 to the financial statements.

## DISTRIBUTABLE RESERVES

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions of dividends to its shareholders subject to the provisions of its Memorandum and Articles of Association and a statutory solvency test. In accordance with Article 137 of the Articles of Association of the Company, dividends may be declared and paid out of the profits of the Company or from any reserves set aside from profits which the Directors determine to be no longer needed. With the sanction of an ordinary resolution, dividends may also be declared or paid out of share premium account. Accordingly, the Company's reserves available for distribution amounted to approximately HK\$25,011,000 as at 31st December, 2005.

## Directors' Report

### DIRECTORS

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

#### Executive Directors

Richard Yingneng Yin	<i>(Chairman)</i>	(Appointed on 11th May, 2005)
Seah Chin Yew	<i>(Chief Executive Officer)</i>	(Appointed on 11th May, 2005)
Lee Yiu Sun	<i>(Chief Financial Officer)</i>	
So Kin Wing		(Resigned on 1st June, 2005)
Lee Sing Kai, Albert		(Appointed on 3rd January, 2005 and resigned on 1st June, 2005)
Chick Siu Yee, Eddy		(Resigned on 21st January, 2005)

#### Non-executive Directors

Kennedy Wong Ying Ho	(Appointed on 9th September, 2005)
Seto John Gin Chung	(Resigned on 1st June, 2005)
Yue Wai Keung	(Resigned on 1st June, 2005)
Chan Henry	(Resigned on 1st June, 2005)
Chan Kai Yu, Martin	(Resigned on 1st June, 2005)
Chan Hung Ti	(Resigned on 1st June, 2005)
Cheng Chi Lam	(Resigned on 1st June, 2005)
Espina Anthony	(Resigned on 1st June, 2005)
Lee Jor Hung	(Resigned on 1st June, 2005)
Lee Sheung Yam	(Resigned on 1st June, 2005)
Wong Wai Sum	(Resigned on 1st June, 2005)

#### Independent Non-executive Directors

Michael Wu Wai Chung	(Appointed on 1st June, 2005)
Japhet Sebastian Law	(Appointed on 30th June, 2005)
Tsang Hing Lun	(Appointed on 30th June, 2005)
Chung Shui Ming, Timpson	(Resigned on 1st June, 2005)
Tsui Yiu Wa, Alec	(Resigned on 1st June, 2005)
Fung Cheong Yee, Alfred	(Resigned on 1st June, 2005)

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

In accordance with Articles 86(3) and 87(1) of the Company's Articles of Association, Mr. Lee Yiu Sun, Mr. Michael Wu Wai Chung, Mr. Japhet Sebastian Law, Mr. Tsang Hing Lun and Mr. Kennedy Wong Ying Ho will retire from office and being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All the remaining Directors shall continue to hold office.

Mr. Richard Yingneng Yin and Dr. Seah Chin Yew are both directors of Asia Network Holdings Limited, which has an interest in the share capital of the Company that would fall to be disclosed to the Company under the provisions in Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO").

## Directors' Report

### DIRECTORS' SERVICE CONTRACTS

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

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31st December, 2005, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

#### (a) Long positions in shares and underlying shares of the Company

Name of Directors	Number of shares beneficially held			Approximate Percentage of shareholding
	Personal Interests	Corporate Interests	Total	
Richard Yingneng Yin	45,000,000 <i>(note 1)</i>	1,280,006,000 <i>(note 2)</i>	1,325,006,000	64.63%
Kennedy Wong Ying Ho	–	202,832,000 <i>(note 3)</i>	202,832,000	9.89%
Lee Yiu Sun	54,719,000	–	54,719,000	2.67%
Seah Chin Yew	25,000,000 <i>(note 4)</i>	–	25,000,000	1.22%

#### Notes:

- (1) Mr. Richard Yingneng Yin has an outstanding option to purchase 45,000,000 shares of the Company, the details of which are referred to in "Notes on underlying shares of the Company".
- (2) Mr. Richard Yingneng Yin was deemed to be interested in 1,280,006,000 shares through his controlling interest in Asia Network Holdings Limited. For details of the shareholdings of Asia Network Holdings Limited in the Company, please refer to Note (5) and Note (6) hereto.
- (3) Mr. Kennedy Wong Ying Ho was deemed to be interested in 202,832,000 shares through his controlling interest in Limin Corporation Limited. In addition, please refer to "Short positions in shares and underlying shares of the Company" for details of Mr. Kennedy Wong Ying Ho's short positions in underlying shares of the Company.
- (4) Dr. Seah Chin Yew has an outstanding option to purchase 25,000,000 shares of the Company, the details of which are referred to in "Notes on underlying shares of the Company".

## Directors' Report

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

#### (b) Short positions in shares and underlying shares of the Company

Name of Director	Number of shares beneficially held	Total	Approximate percentage shareholdings
Kennedy Wong Ying Ho	200,000,000 <i>(note 5)</i>	200,000,000	9.76%
Lee Yiu Sun	50,000,000 <i>(note 6)</i>	50,000,000	2.44%

*Notes:*

- (5) Asia Network Holdings Limited, a controlled corporation of director of the Company Mr. Richard Yingneng Yin, has entered into an option deed with Limin Corporation Limited (a corporation controlled by Mr. Kennedy Wong Ying Ho) whereby Limin Corporation Limited granted Asia Network Holdings Limited an option to purchase all or part of Limin Corporation Limited's 200,000,000 shares in the Company at such time and such price when Limin Corporation Limited intends to transfer or dispose of all or part of the shares to any person during the period commencing on 31st August, 2005 till the date when Limin Corporation Limited ceases to be interested in the shares. The corresponding interests of Asia Network Holdings Limited in the shares of the Company are deemed interests of Mr. Richard Yingneng Yin as disclosed in Note (2) to the "Long positions in shares and underlying shares of the Company" above.
- (6) Asia Network Holdings Limited, a controlled corporation of director of the Company Mr. Richard Yingneng Yin, has also entered into an option deed with Mr. Lee Yiu Sun ("Mr. Lee") whereby Mr. Lee granted Asia Network Holdings Limited an option to purchase all or part of his 50,000,000 shares in the Company at such time and such price when Mr. Lee intends to transfer or dispose of all or part of the shares to any person during the period commencing on 31st August, 2005 till the date when Mr. Lee ceases to be interested in the shares. The corresponding interest of Asia Network Holdings Limited in the shares of the Company are deemed interests of Mr. Richard Yingneng Yin as disclosed in Note (2) to the "Long positions in shares and underlying shares of the Company" above.

## Directors' Report

### Notes on underlying shares of the Company

#### (A) Share Option Schemes 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.

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.

##### (1) Pre-IPO Share Option Scheme

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

Name of grantee	Date of grant	Number of options			Exercise period	Exercise price (approximately) HK\$
		Outstanding as at 1st January, 2005	Exercised during the year	Outstanding as at 31st December, 2005		
So Kin Wing (note 7)	17/12/2001	5,148,000	5,148,000	-	11/01/2004- 16/12/2010	0.019

Note (7): Mr. So Kin Wing resigned as a non-executive director of the Company and his resignation was effective on 1st June, 2005.

The right to offer or grant options under the Pre-IPO Share Option Plan ended upon the listing of the Company's shares on the GEM in January 2002.

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

##### (2) Share Option Scheme

No option under the Share Option Scheme were outstanding at the beginning of nor were any such options granted during the year ended 31st December, 2005.

## Directors' Report

### Notes on underlying shares of the Company (continued)

#### (B) Subscription agreement involving granting of share options

The Company entered into a conditional subscription agreement pursuant to which the Company, amongst others, granted an aggregate of 350,000,000 new share options to Asia Network Holdings Limited (a corporation controlled by Mr. Richard Yingneng Yin), Mr. Richard Yingneng Yin and Dr. Seah Chin Yew on a one-off basis. The transaction was approved by the shareholders at an extraordinary general meeting of the Company held on 1st April, 2005. Details are as follows:

Name of grantee	Date of grant	Number of share options			Outstanding as at 31st December, 2005	Exercise period	Exercise price per share HK\$
		Outstanding as at 1st January, 2005	Granted during the year	Exercised during the year			
Asia Network Holdings Limited	29/04/2005	–	130,000,000	130,000,000	–	29/04/2005-28/04/2009	0.026
Richard Yingneng Yin	29/04/2005	–	120,000,000	75,000,000	45,000,000	29/04/2005-28/04/2009	0.026
Seah Chin Yew	29/04/2005	–	100,000,000	75,000,000	25,000,000	29/04/2005-28/04/2009	0.026
			<hr/>	<hr/>	<hr/>		
			– 350,000,000	280,000,000	70,000,000		

#### Long positions in debentures of the Company

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



## Directors' Report

**Director's interests in shares of the associated corporations of the Company** (within the meaning of Part XV of the SFO)

<b>Name of Director</b>	<b>Name of associated corporation</b>	<b>Approximate percentage shareholdings</b>
Richard Yingneng Yin	Asia Network Holdings Limited	80%
Seah Chin Yew	Asia Network Holdings Limited	20%
Richard Yingneng Yin	First Vanguard Group Limited	100%

Save as disclosed herein, as at 31st December 2005 none of the Directors or chief executive of the Company or their associates had any interests or short positions in any shares, underlying shares or debentures of, the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

### INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to any Director or chief executive of the Company, as at 31st December, 2005, the persons/companies (not being a Director or chief executive of the Company) who have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO are as follows:

### ***SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY***

As at 31st December, 2005, the following companies 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 and underlying shares of the Company**

<b>Name of Shareholders</b>	<b>Capacity</b>	<b>No. of Shares held</b>	<b>Approximate percentage of shareholdings</b>
First Vanguard Group Limited (Notes 1 & 2)	Interest in a controlled corporation	1,280,006,000	62.44%
Asia Network Holdings Limited (Note 2)	Beneficial owner	1,280,006,000	62.44%
Limin Corporation Limited (Note 3)	Beneficial owner	202,832,000	9.89%

## Directors' Report

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

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

*Notes:*

1. First Vanguard Group Limited was deemed to be interested in 1,280,006,000 shares through its controlling interest of 80% in Asia Network Holdings Limited.
2. The 1,280,006,000 shares held by each of Mr. Richard Yingneng Yin, a director of the Company, as deemed interest of his controlled corporations First Vanguard Group Limited and Asia Network Holdings Limited refer to the same parcel of shares. Among the 1,280,006,000 shares, 250,000,000 shares represent the aggregate interests in 200,000,000 shares and 50,000,000 shares under the two respective option deeds entered into by Asia Network Holdings Limited with Limin Corporation Limited (a corporation controlled by a director of the Company Mr. Kennedy Wong Ying Ho) and with Mr. Lee Yiu Sun (a director of the Company). Pursuant to the former option deed, Limin Corporation Limited granted Asia Network Holdings Limited an option to purchase all or part of Limin Corporation Limited's 200,000,000 shares in the Company at such time and such price when Limin Corporation Limited intends to transfer or dispose of all or part of the shares to any person during the period commencing on 31st August, 2005 till the date when Limin Corporation Limited ceases to be interested in the shares. Pursuant to the other option deed entered into with Mr. Lee Yiu Sun, Mr. Lee Yiu Sun granted Asia Network Holdings Limited an option to purchase all or part of his 50,000,000 shares in the Company at such time and such price when Mr. Lee Yiu Sun intends to transfer or dispose of all or part of the shares to any person during the period commencing on 31st August, 2005 till the date when Mr. Lee Yiu Sun ceases to be interested in the shares.
3. The 202,832,000 shares held by each of Mr. Kennedy Wong Ying Ho and Limin Corporation Limited refer to the same parcel of shares.

#### **Short positions in shares and underlying shares of the Company**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>No. of Shares held</b>	<b>Approximate percentage of shareholding</b>
Limin Corporation Limited (Note 4)	Beneficial owner	200,000,000	9.76%

*Note 4:* The 200,000,000 shares are the same parcel of shares under the option deed whereby Limin Corporation Limited granted Asia Network Holdings Limited an option to purchase all or part of Limin Corporation Limited's 200,000,000 shares in the Company as disclosed in Note 2 and Note 3 above.

## Directors' Report

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

#### **Long positions in the debentures of the Company**

During the year ended 31st December, 2005, there were no debt securities issued by the Group at any time.

Save as disclosed above, as at 31st December, 2005, the Company had not been notified of any other person (other than the Directors whose interests are set out in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above) 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.

#### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Other than the share option schemes and the subscription agreement as described above and in notes 30 and 31 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and neither the Directors, nor the chief executive, nor any of their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

#### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

There was no contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

#### **COMPETING INTERESTS**

None of the Directors or the controlling shareholders of the Company (as defined under the GEM Listing Rules) or their respective associates had any interest in a business which competes or may compete with the business of the Group.

#### **MAJOR CUSTOMERS AND SUPPLIERS**

In the year under review, the Group's turnover attributable to its five largest customers combined accounted for less than 30% of the Group's total turnover.

The Group had no major supplier due to the nature of principal activities of the Group.

## Directors' Report

### **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.

### **COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company's Directors have complied with such code of conduct and the required standard of dealings.

### **PRE-EMPTIVE RIGHTS**

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

### **AUDITORS**

Messrs. HLB Hodgson Impey Cheng were auditors of the Company for the years ended 31st December, 2004 and 2005.

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

On behalf of the Board

**Richard Yingneng Yin**

*Chairman*

Hong Kong, 24th March, 2006

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board assumes overall responsibility for the leadership and control of the Group, including providing and setting the Group's directions and strategies in the interests of the Group. It believes in good corporate governance and corporate governance practices that promote investor confidence, development of the Group, and transparency while having the long term interest of the Group and enhancement of shareholders' value as the ultimate objectives. It is committed to and has applied the principles of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules ("Corporate Governance Code").

The Company has formed its Remuneration Committee in August 2005. Save as disclosed above, the Company was in compliance with the Corporate Governance Code.

## DIRECTORS' SECURITIES TRANSACTIONS

In respect of the standard of dealings required of directors, the Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in rules 5.48 to 5.67 of the GEM Listing Rules. The directors have complied with the Company's code of conduct regarding directors' securities transactions.

## THE BOARD OF DIRECTORS

Comprising of three executive and four non-executive directors (including three independent non-executive directors), the present board has an appropriate composition of directors. In ensuring that the Company has an effective Board, the segregation of the role of Chairman and Chief Executive Officer has been in place since the listing of the Company on the Stock Exchange. The non-executive directors are appointed to three-year terms.

The present board of directors consists of:

Richard Yingneng Yin	<i>(Chairman)</i>
Seah Chin Yew	<i>(Chief Executive Officer)</i>
Lee Yiu Sun	<i>(Executive Director)</i>
Kennedy Wong Ying Ho	<i>(Non-executive Director)</i>
Michael Wu Wai Chung	<i>(Independent Non-executive Director)</i>
Japhet Sebastian Law	<i>(Independent Non-executive Director)</i>
Tsang Hing Lun	<i>(Independent Non-executive Director)</i>

## Corporate Governance Report

### THE BOARD OF DIRECTORS *(continued)*

The Board is mandated to determine and review strategic objectives, appoint and supervise senior management, approve quarterly, interim and annual reports, and review the principal risks of the Group's business to ensure that these risks are within manageable limits. It is also mandated to approve any substantial investment, acquisition or disposal by the Company. Major corporate matters that are delegated to the management include the execution of business strategies and initiatives approved by the Board and the preparation of quarterly, interim and annual reports for the Board's approval.

Mr. Richard Yingneng Yin (Chairman) and Dr. Seah Chin Yew (Chief Executive Officer) are directors of and beneficially own Asia Network Holdings Limited, the controlling shareholder of the Company. Mr. Richard Yingneng Yin and Mr. Kennedy Wong Ying Ho are shareholders and directors of a company that intends to engage in private equity funds.

There were 18 board meetings during the period. The attendance of Directors at the board meetings is as follows:

<b>Members</b>		<b>Attendance No. of meetings attended/ No. of meetings during term of service</b>
Richard Yingneng Yin	(Appointed on 11th May, 2005)	12/12
Seah Chin Yew	(Appointed on 11th May, 2005)	12/12
Lee Yiu Sun		18/18
Kennedy Wong Ying Ho	(Appointed on 9th September, 2005)	0/1
Michael Wu Wai Chung	(Appointed on 1st June, 2005)	4/12
Japhet Sebastian Law	(Appointed on 30th June, 2005)	2/4
Tsang Hing Lun	(Appointed on 30th June, 2005)	2/4
Chick Siu Yee, Eddy	(Resigned on 21st January, 2005)*	2/2
Lee Sing Kai, Albert	(Appointed on 3rd January, 2005 and resigned on 1st June, 2005) <sup>†</sup>	4/6
So Kin Wing	(Resigned on 1st June, 2005) <sup>†</sup>	5/6
Seto John Gin Chung	(Resigned on 1st June, 2005) <sup>†</sup>	6/6
Yue Wai Keung	(Resigned on 1st June, 2005) <sup>†</sup>	5/6
Chan Henry	(Resigned on 1st June, 2005) <sup>†</sup>	4/6
Chan Kai Yu, Martin	(Resigned on 1st June, 2005) <sup>†</sup>	2/6
Chan Hung Ti	(Resigned on 1st June, 2005) <sup>†</sup>	4/6
Cheng Chi Lam	(Resigned on 1st June, 2005) <sup>†</sup>	5/6
Espina Anthony	(Resigned on 1st June, 2005) <sup>†</sup>	2/6
Lee Jor Hung	(Resigned on 1st June, 2005) <sup>†</sup>	4/6
Lee Sheung Yam	(Resigned on 1st June, 2005) <sup>†</sup>	2/6
Wong Wai Sum	(Resigned on 1st June, 2005) <sup>†</sup>	2/6
Chung Shui Ming, Timpson	(Resigned on 1st June, 2005) <sup>†</sup>	2/6
Tsui Yiu Wa, Alec	(Resigned on 1st June, 2005) <sup>†</sup>	4/6
Fung Cheong Yee, Alfred	(Resigned on 1st June, 2005) <sup>†</sup>	6/6

\* Resigned on own accord

<sup>†</sup> Resigned due to change in management

## Corporate Governance Report

### REMUNERATION OF DIRECTORS

The Company has established a Remuneration Committee with specific written terms of reference. The Remuneration Committee consists of two independent non-executive directors, Mr. Japhet Sebastian Law and Mr. Tsang Hing Lun; and one executive director, Mr. Richard Yingneng Yin. Mr. Japhet Sebastian Law is the chairman of the committee. The Remuneration Committee's role and function include making recommendations to the Board on the Company's policy and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. It also has the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management.

The Company's remuneration policies are determined on the basis of the contributions of staff and directors. Long-term incentive schemes for staff and directors include share options and cash bonuses.

The Remuneration Committee held one meeting during the year and the attendance of its members is as follows:

<b>Members</b>	<b>Attendance No. of meetings attended/ No. of meetings during term of service</b>
Japhet Sebastian Law	1/1
Tsang Hing Lun	1/1
Richard Yingneng Yin	1/1

During the year, the Remuneration Committee's work includes determining the policy for the remuneration of executive directors, and senior management, considering the terms of executive directors' employment contracts, and making recommendations on employee remuneration for the year 2005.

### NOMINATION OF DIRECTORS

The Company has established a Nomination Committee with specific written terms of reference. The Nomination Committee consists of two independent non-executive directors, Mr. Japhet Sebastian Law and Mr. Tsang Hing Lun; and one executive director, Mr. Richard Yingneng Yin. Mr. Japhet Sebastian Law is the chairman of the committee. The Nomination Committee's role and function include reviewing the structure, size and composition of the board of directors on a regular basis and making recommendations regarding any proposed changes; identifying and recommending individuals suitably qualified to become board members; and assessing the independence of independent non-executive directors.

## Corporate Governance Report

### NOMINATION OF DIRECTORS *(continued)*

The Nomination Committee held one meeting during the year and the attendance of its members is as follows:

<b>Members</b>	<b>Attendance No. of meetings attended/ No. of meetings during term of service</b>
Japhet Sebastian Law	1/1
Tsang Hing Lun	1/1
Richard Yingneng Yin	1/1

On the nomination process, the Nomination Committee would review suggested candidates for directorship having regard to the candidates' reputation and the specific skills or expertise that the candidates can contribute to the Company in the light of the structure, size, and composition of the board of directors. Only candidates who have integrity and can provide specific contributions to the Company thereby enhancing the value of the Company would be considered for nomination to the board of directors by the Nomination Committee.

During the year, the Nomination Committee's work includes reviewing the structure, size, independence and composition of the Board of Directors and making recommendations thereon.

### AUDITORS' REMUNERATION

During the year, the Group is required to pay an aggregate of approximately HK\$230,000 to its auditors. This amount included HK\$150,000 for audit services and HK\$80,000 for corporate services.

### AUDIT COMMITTEE

The Company has established an Audit Committee with specific written terms of reference. The Audit Committee consists of three independent non-executive directors, namely, Mr. Tsang Hing Lun, Mr. Japhet Sebastian Law and Mr. Michael Wu Wai Chung. Chaired by Mr. Tsang Hing Lun, the Audit Committee's role and function include making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor; review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard; develop and implement policy on the engagement of an external auditor to supply non-audit services; monitor the integrity of financial statements, annual reports and accounts, half-yearly and quarterly reports of the Company, and review significant financial reporting judgments contained in them; review the Company's financial controls, internal control and risk management systems; and review the Group's financial and accounting policies, procedures and practices.



## Corporate Governance Report

### AUDIT COMMITTEE *(continued)*

The Audit Committee has reviewed the financial statements of the Group for the year ended 31st December, 2005 pursuant to the relevant provisions contained in the Code of Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules 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.

The Audit Committee held four meetings during the year and the attendance of its members is as follows:

<b>Members</b>		<b>Attendance No. of meetings attended/ No. of meetings during term of service</b>
Japhet Sebastian Law	(appointed on 30th June, 2005)	2/2
Tsang Hing Lun	(appointed on 30th June, 2005)	2/2
Michael Wu Wai Chung	(appointed on 1st June, 2005)	2/2
Chung Shui Ming, Timpson	(resigned on 1st June, 2005)	2/2
Tsui Yiu Wa, Alec	(resigned on 1st June, 2005)	1/2
Lee Yiu Sun	(resigned on 1st June, 2005)	2/2

During the year, the Audit Committee's work includes reviewing the Company's quarterly, half yearly and annual results, reviewing the Company's system of internal control, and the Company's accounting policies.

The directors' responsibilities for preparing the accounts and the reporting responsibilities of the auditors are set out on page 25.

The directors have conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries.

**AUDITORS' REPORT**

國 衛 會 計 師 事 務 所  
**Hodgson Impey Cheng**

Chartered Accountants  
Certified Public Accountants

31/F, Gloucester Tower  
The Landmark  
11 Pedder Street, Central  
Hong Kong

**TO THE SHAREHOLDERS OF  
INTERNATIONAL FINANCIAL NETWORK HOLDINGS LTD. 國際金融社控股有限公司  
(FORMERLY KNOWN AS STOCKMARTNET HOLDINGS LTD. 金融社控股有限公司)**  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 26 to 73 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

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

**OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**HLB Hodgson Impey Cheng**

*Chartered Accountants  
Certified Public Accountants*

Hong Kong, 24th March, 2006

**CONSOLIDATED INCOME STATEMENT***For the year ended 31st December, 2005*

	<i>Note</i>	<b>2005</b> <b>HK\$</b>	2004 HK\$
Turnover	6	<b>91,909,528</b>	6,737,390
Cost of sales		<b>(88,905,026)</b>	–
Gross profit		<b>3,004,502</b>	6,737,390
Other operating income and gain	8	<b>615,390</b>	449,415
		<b>3,619,892</b>	7,186,805
Amortisation of intangible assets		<b>(743,600)</b>	(666,432)
Depreciation of property, plant and equipment		<b>(650,410)</b>	(771,585)
Staff costs, including directors' remuneration	11	<b>(6,810,180)</b>	(6,877,439)
Other operating expenses		<b>(7,438,542)</b>	(9,629,215)
Loss before income tax	9	<b>(12,022,840)</b>	(10,757,866)
Income tax	13	–	–
Net loss for the year		<b>(12,022,840)</b>	(10,757,866)
Attributable to:			
Equity holders of the Company	14	<b>(12,022,840)</b>	(10,757,866)
Minority interests		–	–
		<b>(12,022,840)</b>	(10,757,866)
Loss per share for loss attributable to the equity holders of the Company – basic and diluted	15	<b>(0.75) cents</b>	(1.41) cents

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

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

**BALANCE SHEETS**

As at 31st December, 2005

	Note	The Group		The Company	
		2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
<b>Non-current assets</b>					
Property, plant and equipment	16	1,436,649	833,001	1,196,654	519,440
Intangible assets	17	1,288,064	2,031,664	–	–
Statutory deposits	18	2,155,000	2,180,000	–	–
Investments in subsidiaries	19	–	–	7,114,760	4,771,260
Available-for-sale financial assets	24	465,524	–	–	–
		<b>5,345,237</b>	5,044,665	<b>8,311,414</b>	5,290,700
<b>Current assets</b>					
Trade receivables	20	3,012,339	8,667,485	–	–
Deposit for investment in an associate classified as held for sale	36(i)	11,224,000	–	–	–
Other amounts receivable, prepayments and deposits	21	391,781	515,998	139,463	444,850
Amounts due from subsidiaries	26	–	–	37,395,965	34,837,331
Bank balances and cash	25	32,266,369	24,864,467	1,309,731	1,285,514
		<b>46,894,489</b>	34,047,950	<b>38,845,159</b>	36,567,695
<b>Total assets</b>		<b>52,239,726</b>	39,092,615	<b>47,156,573</b>	41,858,395
<b>Current liabilities</b>					
Trade payables	22	5,252,218	12,038,812	–	–
Other amounts payable and accrued charges	23	873,316	499,808	663,030	294,385
Amounts due to subsidiaries	27	–	–	982,618	14,202,225
		<b>6,125,534</b>	12,538,620	<b>1,645,648</b>	14,496,610
<b>Net current assets</b>		<b>40,768,955</b>	21,509,330	<b>37,199,511</b>	22,071,085
<b>Net assets</b>		<b>46,114,192</b>	26,553,995	<b>45,510,925</b>	27,361,785
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	28	20,500,340	7,648,860	20,500,340	7,648,860
Share premium	28	99,621,355	80,974,438	99,621,355	80,974,438
Special reserve	29	4,778,740	4,778,740	–	–
Available-for-sale financial assets revaluation reserve		84,635	–	–	–
Accumulated losses		(78,870,883)	(66,848,043)	(74,610,770)	(61,261,513)
		<b>46,114,187</b>	26,553,995	<b>45,510,925</b>	27,361,785
<b>Minority interests</b>		<b>5</b>	–	–	–
<b>Total equity</b>		<b>46,114,192</b>	26,553,995	<b>45,510,925</b>	27,361,785

The financial statements on pages 26 to 74 were approved and authorised for issue by the Board of Directors on 24th March, 2006 and are signed on its behalf by:

**Richard Yingneng Yin**  
Director

**Seah Chin Yew**  
Director

The accompanying notes form an integral part of these financial statements

## STATEMENTS OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Attributable to equity holders of the Company						
	Share capital	Share premium	Special reserve	Available-	Accumulated	Minority	Total
				for-sale financial assets			
HK\$ (Note 28)	HK\$ (Note 28)	HK\$ (Note 29)	HK\$	HK\$	HK\$	HK\$	HK\$
<b>The Group</b>							
As at 1st January, 2004	7,648,860	80,974,438	4,778,740	–	(56,090,177)	–	37,311,861
Net loss for the year	–	–	–	–	(10,757,866)	–	(10,757,866)
<i>Total income and expense for the year</i>	–	–	–	–	(10,757,866)	–	(10,757,866)
<b>As at 31st December, 2004 and 1st January, 2005</b>	<b>7,648,860</b>	<b>80,974,438</b>	<b>4,778,740</b>	<b>–</b>	<b>(66,848,043)</b>	<b>–</b>	<b>26,553,995</b>
Change in fair value of available-for-sale financial assets	–	–	–	92,543	–	–	92,543
<i>Total income and expense recognised directly in equity</i>	–	–	–	92,543	–	–	92,543
Net loss for the year	–	–	–	–	(12,022,840)	–	(12,022,840)
<i>Total income and expense for the year</i>	–	–	–	92,543	(12,022,840)	–	(11,930,297)
Transfer to profit or loss on disposal	–	–	–	(7,908)	–	–	(7,908)
Acquisition of subsidiaries	–	–	–	–	–	5	5
Issue of shares	12,851,480	20,528,520	–	–	–	–	33,380,000
Share issue expenses	–	(1,881,603)	–	–	–	–	(1,881,603)
<b>As at 31st December, 2005</b>	<b>20,500,340</b>	<b>99,621,355</b>	<b>4,778,740</b>	<b>84,635</b>	<b>(78,870,883)</b>	<b>5</b>	<b>46,114,192</b>

## Statements of Changes in Equity

For the year ended 31st December, 2005

	Attributable to equity holders of the Company						
	Share capital HK\$ (Note 28)	Share premium HK\$ (Note 28)	Special reserve HK\$ (Note 29)	Available- for-sale financial assets revaluation reserve HK\$	Accumulated losses HK\$	Minority interests HK\$	Total equity HK\$
<b>The Company</b>							
As at 1st January, 2004	7,648,860	80,974,438	-	-	(45,403,449)	-	43,219,849
Net loss for the year	-	-	-	-	(15,858,064)	-	(15,858,064)
<i>Total income and expense for the year</i>	-	-	-	-	(15,858,064)	-	(15,858,064)
<b>As at 31st December, 2004 and 1st January, 2005</b>	<b>7,648,860</b>	<b>80,974,438</b>	<b>-</b>	<b>-</b>	<b>(61,261,513)</b>	<b>-</b>	<b>27,361,785</b>
Net loss for the year	-	-	-	-	(13,349,257)	-	(13,349,257)
<i>Total income and expense for the year</i>	-	-	-	-	(13,349,257)	-	(13,349,257)
Issue of shares	12,851,480	20,528,520	-	-	-	-	33,380,000
Share issue expenses	-	(1,881,603)	-	-	-	-	(1,881,603)
<b>As at 31st December, 2005</b>	<b>20,500,340</b>	<b>99,621,355</b>	<b>-</b>	<b>-</b>	<b>(74,610,770)</b>	<b>-</b>	<b>45,510,925</b>

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

**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 31st December, 2005

	2005 HK\$	2004 HK\$
<b>Operating activities</b>		
Loss before income tax	(12,022,840)	(10,757,866)
Adjustments for:		
Depreciation of property, plant and equipment	650,410	771,585
Amortisation of intangible assets	743,600	666,432
Loss on disposal of property, plant and equipment	351,413	–
Transfer from equity on disposal of available-for-sale financial assets	(7,908)	–
Interest expenses	35,879	17,765
Interest income	(564,813)	(153,170)
<b>Operating cash flows before movements in working capital</b>	<b>(10,814,259)</b>	<b>(9,455,254)</b>
Decrease in statutory deposits	25,000	75,000
Decrease in trade receivables	5,655,146	2,291,301
Decrease in other amounts receivable, prepayments and deposits	124,217	34,234
(Increase)/decrease in bank trust accounts	(887,954)	3,592,881
Decrease in trade payables	(6,786,594)	(3,260,016)
Increase/(decrease) in other amounts payable and accrued charges	373,508	(108,644)
<b>Cash used in operations</b>	<b>(12,310,936)</b>	<b>(6,830,498)</b>
Interest paid	(35,879)	(17,765)
Interest received	564,813	153,170
<b>Net cash used in operating activities</b>	<b>(11,782,002)</b>	<b>(6,695,093)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,605,471)	(1,400)
Purchase of available-for-sale financial assets	(2,281,183)	–
Sale of available-for-sale financial assets	1,908,202	–
Deposit for investment in an associate classified as held for sale	(11,224,000)	–
<b>Net cash used in investing activities</b>	<b>(13,202,452)</b>	<b>(1,400)</b>

## Consolidated Cash Flow Statement

For the year ended 31st December, 2005

	<i>Note</i>	<b>2005</b> <b>HK\$</b>	2004 HK\$
<b>Financing activities</b>			
Proceeds from issue of shares		<b>33,380,000</b>	–
Shares issue expenses		<b>(1,881,603)</b>	–
Capital contributions from minority shareholders of a subsidiary		<b>5</b>	–
		<hr/>	<hr/>
<b>Net cash generated from financing activities</b>		<b>31,498,402</b>	–
		<hr/>	<hr/>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>6,513,948</b>	(6,696,493)
Cash and cash equivalents at beginning of the year		<b>20,240,510</b>	26,937,003
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of the year</b>	<i>25</i>	<b>26,754,458</b>	20,240,510
		<hr/> <hr/>	<hr/> <hr/>

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2005

## 1. 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 and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). In the opinion of the directors, the parent of the Group is Asia Network Holdings Limited, which is incorporated in the British Virgin Islands and the ultimate holding company of the Group is First Vanguard Group Limited, which is incorporated in the British Virgin 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, infrastructure broking services comprising trading, clearing and settlement, the provision of corporate finance advisory services as well as trading and principal investment.

These financial statements are presented in Hong Kong dollars (HK\$), unless otherwise stated.

## 2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. The financial statements have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5 to the financial statements.

### **Adoption of new/revised Hong Kong Financial Reporting Standards and changes in accounting policies**

In 2005, the Group adopted the new/revised HKFRSs below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. BASIS OF PREPARATION *(continued)*

#### Adoption of new/revised Hong Kong Financial Reporting Standards and changes in accounting policies *(continued)*

HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

- (i) The adoption of new/revised HKASs 1, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 24, 27, 33, 37 and HKFRS 5 did not result in substantial changes to the Group's accounting policies. In summary:
- HKAS 1 has affected the presentation of minority interest and other disclosures.
  - HKASs 7, 8, 10, 12, 14, 16, 17, 18, 19, 27, 33, 37 and HKFRS 5 had no material effect on the Group's policies.
  - HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
  - HKAS 24 has affected the identification of related parties and some other related party disclosures.
- (ii) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. BASIS OF PREPARATION *(continued)*

#### **Adoption of new/revised Hong Kong Financial Reporting Standards and changes in accounting policies** *(continued)*

(iii) The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December, 2004, goodwill was:

- Amortised on a straight-line basis over its estimated useful life; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1st January, 2005;
- Accumulated amortisation as at 31st December, 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
- From the year ended 31st December, 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

(iv) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st December, 2004, the provision of share options to employees did not result in an expense in the income statements. Effective on 1st January, 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7th November, 2002 and had not yet vested on 1st January, 2005 was expensed retrospectively in the income statement of the respective periods.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 38 – prospectively after the adoption date;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on retrospective basis;
- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November, 2002 and not vested at 1st January 2005;
- HKFRS 3 – prospectively after 1st January, 2005; and
- HKFRS 5 – prospectively after 1st January, 2005.

The adoption of the HKFRSs listed above had no material impact on the Group's financial statements for the current or prior accounting periods.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 2. BASIS OF PREPARATION *(continued)*

#### **Adoption of new/revised Hong Kong Financial Reporting Standards and changes in accounting policies** *(continued)*

The Group has not applied the following new/revised HKFRSs, that have been issued but are not yet effective, to these financial statements:

HKAS 1 (Amendment)	Capital Disclosures <i>(Note i)</i>
HKAS 21 (Amendment)	Net Investment in a Foreign Operation <i>(Note ii)</i>
HKAS 39 (Amendment)	The Fair Value Option <i>(Note ii)</i>
HKFRS 7	Financial Instruments: Disclosures <i>(Note i)</i>

*Notes:*

- (i) Effective for accounting periods beginning on or after 1st January, 2007
- (ii) Effective for accounting periods beginning on or after 1st January, 2006

The Group has already commenced an assessment of these HKFRSs which are effective for accounting periods beginning on or after 1st January, 2006 but is not yet in a position to state whether these HKFRSs would have a significant impact on its results of operations and financial position.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **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.

##### *(i) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### a. Basis of consolidation *(continued)*

##### (i) Subsidiaries *(continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

##### (ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### a. Basis of consolidation *(continued)*

##### *(ii) Associates (continued)*

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in associates in the Company's balance sheet are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discounted Operations".

#### b. Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

#### c. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### d. Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- i. Commission income is recognised on a trade date basis.
- ii. Fees and service charges arising from the provision of a trading platform, infrastructure broking services and corporate finance advisory service are recognised when services are rendered.
- iii. Transactions of investment in securities and related revenues are recorded on a trade date basis.
- iv. Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.
- v. Sundry income is recognised when received.

#### e. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is provided to write off the cost of items of property, plant and equipment to their residual values 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%
Motor vehicle	:	33.33%

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### e. Property, plant and equipment *(continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

#### f. Intangible assets

##### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

##### (ii) Trading rights

Trading rights represent rights to trade on the Stock Exchange and on the Hong Kong Futures Exchange Limited ("HKFE"). They have definite useful lives and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using straight-line method to allocate the cost of trading rights over their estimated useful lives.

#### g. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).



## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **h. Investments**

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

*(i) Financial assets at fair value through profit or loss*

Financial assets held for trading are included in the category "financial assets at fair value through profit or loss". A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade receivables in the balance sheet.

*(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

*(iv) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### h. Investments *(continued)*

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### i. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

#### j. Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

#### k. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions (excluding clients' monies in segregated trust accounts with banks), 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.

#### l. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### m. Foreign currency translation

##### *(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

##### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

##### *(iii) Group companies*

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (c) all resulting exchange differences are recognised as a separate component of equity.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### m. Foreign currency translation *(continued)*

##### *(iii) Group companies (continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### n. Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

#### o. Employee benefits

##### *(i) Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully within the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme. As at the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the MPF Scheme and available to reduce the contribution payable in future years was approximately HK\$44,000 (2004: HK\$198,000).

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **o. Employee benefits** *(continued)*

##### *(ii) Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

#### **p. Provisions**

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 4. FINANCIAL RISK MANAGEMENT

#### a. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, and cash flow and fair value interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) *Market risk*

(a) Foreign exchange risk

The Group has an investment in foreign operation, whose net assets are exposed to foreign currency translation risk. Currency exposure arises from the net assets of the Group's foreign operation in Singapore.

The Group's principal businesses are mainly conducted and recorded in Hong Kong dollars. The management of the Group considers the foreign exchange risk of the Group is not significant, and thus does not have any active policies to hedge against the foreign exchange risk.

(b) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group manages this exposure by maintaining a portfolio of investments with different risk profiles.

(ii) *Credit risk*

The Group has no significant concentrations of credit risk. It has policies in place to ensure that credits are granted to customers with an appropriate credit history. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure the adequate impairment losses are made for irrecoverable amounts.

The Group has maintained relationship with various financial institutions, and has policies that limit the amount of credit exposure to any financial institution.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 4. FINANCIAL RISK MANAGEMENT *(continued)*

#### a. Financial risk factors *(continued)*

##### *(iii) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. Due to the dynamic nature of the underlying businesses, the Group employs a prudent liquidity policy. The Group's liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

##### *(iv) Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from bank deposit which is primarily short-term in nature. As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

#### b. Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

### 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Estimated impairment of trading rights

The Group tests annually whether trading rights has suffered any impairment, in accordance with the accounting policy stated in notes 3(f)(ii) and 3(g). Determining whether trading rights are impaired requires an estimate of the value in use of the asset. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also choose a suitable discount rate in order to calculate the present value of those cash flows. Where the actual future cash flows are less than expected, a material impairment loss may arise.



## Notes to the Financial Statements

For the year ended 31st December, 2005

### 6. TURNOVER

Turnover represents (i) the net invoiced value for the fees and services charges in relation to the provision of trading platform; (ii) commission income, interest income and service fees arising from brokerage and securities margin financing business and infrastructure broking services; (iii) fee income from provision of corporate finance advisory services; and (iv) income from trading and principal investment. Details of the turnover are analysed as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Income from trading platform	<b>141,169</b>	144,084
Commission income/Infrastructure broking services fee	<b>2,332,701</b>	6,445,680
Interest income from clients	<b>147,921</b>	147,626
Fee income from corporate finance advisory services	<b>320,000</b>	–
Trading and principal investment	<b>88,967,737</b>	–
	<b>91,909,528</b>	6,737,390

### 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is currently organised into 4 main operating divisions, engaged in the following principal activities: (i) the provision of a trading platform; (ii) brokerage and securities margin financing business, and infrastructure broking services; (iii) corporate financing; and (iv) trading and principal investment. 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
- Corporate finance advisory services
- Trading and principal investment

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Income statement for the year ended 31st December, 2005

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Corporate finance advisory services HK\$	Trading and principal investment HK\$ <i>(note)</i>	Total HK\$
<b>Revenue</b>					
Turnover	141,169	2,480,622	320,000	88,967,737	91,909,528
<b>Results</b>					
Segment profit/(loss)	10,972	(9,184,808)	(539,143)	57,946	(9,655,033)
Net unallocated corporate expenses					(2,367,807)
Loss before income tax					(12,022,840)
Income tax					-
Net loss for the year					(12,022,840)

*Note:* In 2005, the Group considers trading and principal investment activities as one of the business segments. The sales proceeds of the investments are included in the segment's turnover and the segment's results represents net realised/unrealised gains or losses on investments and other operating expenses incurred in the segment.

#### Income statement for the year ended 31st December, 2004

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

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Other information for the year ended 31st December, 2005

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Corporate finance advisory services HK\$	Trading and principal investment HK\$	Unallocated corporate expenses HK\$	Total HK\$
Depreciation and amortisation	-	1,069,368	-	-	324,642	1,394,010
Loss on disposal of property, plant and equipment	-	35,088	-	-	316,325	351,413

#### Other information for the year ended 31st December, 2004

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Unallocated corporate expenses HK\$	Total HK\$
Depreciation and amortisation	47,719	1,003,083	387,215	1,438,017

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Balance sheet as at 31st December, 2005

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Corporate finance advisory services HK\$	Trading and principal investment HK\$	Unallocated corporate balance HK\$	Total HK\$
<b>Segment assets</b>	203,214	35,092,351	2,926,447	11,320,970	2,696,744	52,239,726
<b>Segment liabilities</b>	1,342	5,343,662	59,900	-	720,630	6,125,534
<b>Capital expenditure</b> Additions of property, plant and equipment	-	287,290	-	-	1,318,181	1,605,471

#### Balance sheet as at 31st December, 2004

	Provision of a trading platform HK\$	Brokerage and securities margin financing, and infrastructure broking services HK\$	Unallocated corporate balance HK\$	Total HK\$
<b>Segment assets</b>	202,348	35,639,813	3,250,454	39,092,615
<b>Segment liabilities</b>	1,298	12,242,937	294,385	12,538,620
<b>Capital expenditure</b> Additions of property, plant and equipment	-	-	1,400	1,400

Segment assets consist primarily of property, plant and equipment, intangible assets, receivables, operating cash and segregated trust bank balances. Segment liabilities comprise operating liabilities.

No geographical segment analysis is presented for the years ended 31st December, 2004 and 2005 as over 90% of the Group's revenue, segment results and the location of assets during the years ended 31st December, 2004 and 2005 are derived from or located in Hong Kong.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 8. OTHER OPERATING INCOME AND GAIN

	2005 HK\$	2004 HK\$
<b>Other operating income</b>		
CCASS fee income	32,849	69,670
Handling fee income	89,393	70,240
Interest income on bank deposits	407,535	615
Other interest income	9,357	4,929
Sundry income	68,348	303,961
	<hr/> 607,482	449,415
<b>Other gain</b>		
Transfer from equity on disposal of available-for-sale financial assets	7,908	–
	<hr/> 615,390	449,415
	<hr/> <hr/>	

### 9. LOSS BEFORE INCOME TAX

	2005 HK\$	2004 HK\$
Loss before income tax has been arrived at after charging:		
Auditors' remuneration	150,000	120,000
Loss on disposal of property, plant and equipment	351,413	–
Operating lease rentals in respect of rented office premises	886,128	1,012,576
	<hr/> 886,128	1,012,576
	<hr/> <hr/>	

### 10. DIRECTORS' REMUNERATION

	2005 HK\$	2004 HK\$
Directors' fees paid to Independent Non-executive Directors	352,093	225,000
Other emoluments paid to Executive Directors:		
Salaries and benefits in kind	2,909,507	2,640,000
Contributions to MPF Scheme	30,000	24,000
	<hr/> 3,291,600	2,889,000
Total emoluments	<hr/> 3,291,600	2,889,000
	<hr/> <hr/>	

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 10. DIRECTORS' REMUNERATION (continued)

The remuneration of every Director for the year ended 31st December, 2005 is set out below:

Name of Director	Note	Fee HK\$	Salaries, allowances, and benefits in kind HK\$	Contributions to MPF Scheme HK\$	Total HK\$
<i>Executive directors</i>					
Mr. Richard Yingneng Yin	(i)	–	805,000	7,000	812,000
Dr. Seah Chin Yew	(i)	–	805,000	7,000	812,000
Mr. Lee Yiu Sun		–	700,000	7,000	707,000
Mr. Lee Sing Kai, Albert	(ii)	–	225,000	5,000	230,000
Mr. So Kin Wing	(iii)	–	301,667	3,000	304,667
Mr. Chick Siu Yee, Eddy	(iv)	–	72,840	1,000	73,840
<i>Non-executive directors</i>					
Mr. Wong Ying Ho, Kennedy	(v)	60,000	–	–	60,000
Mr. Seto John Gin Chung	(iii)	–	–	–	–
Mr. Yue Wai Keung	(iii)	–	–	–	–
Mr. Chan Henry	(iii)	–	–	–	–
Mr. Chan Kai Yu, Martin	(iii)	–	–	–	–
Mr. Chan Hung Ti	(iii)	–	–	–	–
Mr. Cheng Chi Lam	(iii)	–	–	–	–
Mr. Espina Anthony	(iii)	–	–	–	–
Mr. Lee Jor Hung	(iii)	–	–	–	–
Mr. Lee Sheung Yam	(iii)	–	–	–	–
Mr. Wong Wai Sum	(iii)	–	–	–	–
<i>Independent non-executive directors</i>					
Mr. Wu Wai Chung, Michael	(vi)	49,593	–	–	49,593
Mr. Law Japhet Sebastian	(vii)	47,500	–	–	47,500
Mr. Tsang Hing Lun	(vii)	45,000	–	–	45,000
Mr. Chung Shui Ming, Timpson	(iii)	50,000	–	–	50,000
Mr. Tsui Yiu Wa, Alec	(iii)	50,000	–	–	50,000
Mr. Fung Cheong Yee Alfred	(iii)	50,000	–	–	50,000
		352,093	2,909,507	30,000	3,291,600

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 10. DIRECTORS' REMUNERATION (continued)

Notes:

- (i) Appointed on 11th May, 2005.
- (ii) Appointed on 3rd January, 2005 and resigned on 1st June, 2005. In addition to the director's emoluments of HK\$230,000 disclosed above, Mr. Lee also received employee's emoluments of HK\$357,000 for the period from the date of his resignation to 31st December, 2005.
- (iii) Resigned on 1st June, 2005.
- (iv) Resigned on 21st January, 2005.
- (v) Appointed on 9th September, 2005.
- (vi) Appointed on 1st June, 2005.
- (vii) Appointed on 30th June, 2005.

The remuneration of every Director for the year ended 31st December, 2004 is set out below:

Name of Director	Note	Fee HK\$	Salaries, allowances, and benefits in kind HK\$	Contributions to MPF Scheme HK\$	Total HK\$
<i>Executive directors</i>					
Mr. Chick Siu Yee, Eddy		–	1,440,000	12,000	1,452,000
Mr. So Kin Wing, Benny		–	1,200,000	12,000	1,212,000
<i>Non-executive directors</i>					
Mr. Seto John Gin Chung		–	–	–	–
Mr. Lee Yiu Sun		–	–	–	–
Mr. Yue Wai Keung		–	–	–	–
Mr. Chan Henry		–	–	–	–
Mr. Chan Kai Yu, Martin		–	–	–	–
Mr. Chan Hung Ti		–	–	–	–
Mr. Cheng Chi Lam		–	–	–	–
Mr. Espina Anthony		–	–	–	–
Mr. Lee Jor Hung		–	–	–	–
Mr. Lee Sheung Yam		–	–	–	–
Mr. Wong Wai Sum		–	–	–	–
Mr. Cheung Wah Fung, Christopher	(i)	–	–	–	–
<i>Independent non-executive directors</i>					
Mr. Chung Shui Ming, Timpson		100,000	–	–	100,000
Mr. Tsui Yiu Wa, Alec		100,000	–	–	100,000
Mr. Fung Cheong Yee, Alfred	(ii)	25,000	–	–	25,000
		225,000	2,640,000	24,000	2,889,000

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 10. DIRECTORS' REMUNERATION (continued)

Notes:

- (i) Resigned on 22nd September, 2004.
- (ii) Appointed on 30th September, 2004

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 (2004: Nil). None of the Directors waived or agreed to waive any remuneration during the year (2004: Nil).

### 11. STAFF COSTS

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Salaries, allowances and benefits in kind	<b>6,766,020</b>	6,724,808
Contributions to MPF Scheme	<b>44,160</b>	152,631
	<hr/>	<hr/>
Total staff costs including directors' remuneration	<b>6,810,180</b>	6,877,439
	<hr/> <hr/>	<hr/> <hr/>

### 12. EMPLOYEES' EMOLUMENTS

The five highest paid employees during the year included four (2004: two) Directors, details of whose remuneration are set out in note 10 to the financial statements. Details of the remuneration of the remaining one (2004: three) non-director, highest paid employee for the year are as follows:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Salaries, allowances and benefits in kind	<b>531,290</b>	1,675,157
Contributions to MPF Scheme	<b>6,000</b>	32,000
	<hr/>	<hr/>
	<b>537,290</b>	1,707,157
	<hr/> <hr/>	<hr/> <hr/>

Their emoluments were within the following band:

	<b>2005</b>	2004
	<b>No. of</b>	No. of
	<b>employees</b>	employees
Nil to HK\$1,000,000	<b>1</b>	3
	<hr/> <hr/>	<hr/> <hr/>



## Notes to the Financial Statements

For the year ended 31st December, 2005

### 13. INCOME TAX

Hong Kong profits tax is calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. No provision for Hong Kong profits tax has been made in the financial statements as the Group incurred a tax loss for the year (2004: Nil).

Details of potential deferred taxation not provided for are set out in note 32 to the financial statements.

### 14. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$13,349,257 (2004: HK\$15,858,064).

### 15. LOSS PER SHARE

The calculation of the basic loss per share for the year ended 31st December, 2005 is based on the net loss of the Group attributable to equity holders of the Company of HK\$12,022,840 (2004: HK\$10,757,866) and weighted average number of 1,587,301,540 (2004: 764,886,000) 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, 2005

### 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Office equipment and furniture HK\$	Computer equipment HK\$	Motor Vehicle HK\$	Total HK\$
<b>The Group</b>					
<b>As at 1st January, 2004</b>					
Cost	998,243	906,646	1,062,128	–	2,967,017
Accumulated depreciation	(345,722)	(591,039)	(427,070)	–	(1,363,831)
Net book values	652,521	315,607	635,058	–	1,603,186
<b>Year ended 31st December, 2004</b>					
Net book values as at 1st January, 2004	652,521	315,607	635,058	–	1,603,186
Additions	–	1,400	–	–	1,400
Depreciation for the year	(204,981)	(212,562)	(354,042)	–	(771,585)
Net book values as at 31st December, 2004	447,540	104,445	281,016	–	833,001
<b>As at 31st December, 2004</b>					
Cost	998,243	908,046	1,062,128	–	2,968,417
Accumulated depreciation	(550,703)	(803,601)	(781,112)	–	(2,135,416)
Net book values	447,540	104,445	281,016	–	833,001
<b>Year ended 31st December, 2005</b>					
Net book values as at 1st January, 2005	447,540	104,445	281,016	–	833,001
Additions	953,497	60,074	319,140	272,760	1,605,471
Disposal	(327,967)	(932)	(22,514)	–	(351,413)
Depreciation for the year	(225,516)	(109,254)	(270,180)	(45,460)	(650,410)
Net book values as at 31st December, 2005	<b>847,554</b>	<b>54,333</b>	<b>307,462</b>	<b>227,300</b>	<b>1,436,649</b>
<b>As at 31st December, 2005</b>					
Cost	953,497	827,352	918,860	272,760	2,972,469
Accumulated depreciation	(105,943)	(773,019)	(611,398)	(45,460)	(1,535,820)
Net book values	<b>847,554</b>	<b>54,333</b>	<b>307,462</b>	<b>227,300</b>	<b>1,436,649</b>

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements HK\$	Office equipment and furniture HK\$	Computer equipment HK\$	Total HK\$
<b>The Company</b>				
<b>As at 1st January, 2004</b>				
Cost	958,252	235,529	350,232	1,544,013
Accumulated depreciation	(338,480)	(130,282)	(169,996)	(638,758)
Net book values	619,772	105,247	180,236	905,255
<b>Year ended 31st December, 2004</b>				
Net book values as at 1st January, 2004	619,772	105,247	180,236	905,255
Additions	–	1,400	–	1,400
Depreciation for the year	(191,650)	(78,821)	(116,744)	(387,215)
Net book values as at 31st December, 2004	428,122	27,826	63,492	519,440
<b>As at 31st December, 2004</b>				
Cost	958,252	236,929	350,232	1,545,413
Accumulated depreciation	(530,130)	(209,103)	(286,740)	(1,025,973)
Net book values	428,122	27,826	63,492	519,440
<b>Year ended 31st December, 2005</b>				
Net book values as at 1st January, 2005	428,122	27,826	63,492	519,440
Additions	953,497	60,074	304,610	1,318,181
Disposal	(316,325)	–	–	(316,325)
Depreciation for the year	(217,740)	(33,567)	(73,335)	(324,642)
Net book values as at 31st December, 2005	<b>847,554</b>	<b>54,333</b>	<b>294,767</b>	<b>1,196,654</b>
<b>As at 31st December, 2005</b>				
Cost	953,497	164,620	462,605	1,580,722
Accumulated depreciation	(105,943)	(110,287)	(167,838)	(384,068)
Net book values	<b>847,554</b>	<b>54,333</b>	<b>294,767</b>	<b>1,196,654</b>

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 17. INTANGIBLE ASSETS

#### The Group

	<b>Goodwill</b>	<b>Trading rights</b>
	HK\$	HK\$
	<i>(note i)</i>	<i>(note ii)</i>
<b>As at 1st January, 2004</b>		
Cost	191,839	3,592,000
Accumulated impairment losses	(191,839)	–
Accumulated amortisation	–	(893,904)
	<hr/>	<hr/>
Net book value	–	2,698,096
	<hr/> <hr/>	<hr/> <hr/>
<b>Year ended 31st December, 2004</b>		
Net book value as at 1st January, 2004	–	2,698,096
Amortisation for the year	–	(666,432)
	<hr/>	<hr/>
Net book value as at 31st December, 2004	–	2,031,664
	<hr/> <hr/>	<hr/> <hr/>
<b>As at 31st December, 2004</b>		
Cost	191,839	3,592,000
Accumulated impairment losses	(191,839)	–
Accumulated amortisation	–	(1,560,336)
	<hr/>	<hr/>
Net book value	–	2,031,664
	<hr/> <hr/>	<hr/> <hr/>
<b>Year ended 31st December, 2005</b>		
Net book value as at 1st January, 2005	–	2,031,664
Amortisation for the year	–	(743,600)
	<hr/>	<hr/>
Net book value as at 31st December, 2005	–	<b>1,288,064</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>As at 31st December, 2005</b>		
Cost	191,839	3,592,000
Accumulated impairment losses	(191,839)	–
Accumulated amortisation	–	(2,303,936)
	<hr/>	<hr/>
Net book value	–	<b>1,288,064</b>
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 17. INTANGIBLE ASSETS (continued)

Notes:

- (i) The Directors of the Company having taken into account the 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 for the year ended 31st December, 2003.
- (ii) The intangible assets as at 31st December, 2005 represent two trading rights in the Stock Exchange and one trading right in the Hong Kong Futures Exchange Limited ("HKFE").

### 18. STATUTORY DEPOSITS

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Hong Kong Securities Clearing Company Limited ("HKSCC")		
– contribution fund deposit	<b>100,000</b>	100,000
– admission fee deposit	<b>100,000</b>	100,000
The Stock Exchange		
– compensation fund deposit	<b>100,000</b>	100,000
– fidelity fund deposit	<b>100,000</b>	100,000
– stamp duty deposit	<b>5,000</b>	30,000
HKFE Clearing Corporation Limited ("HKFECC")		
– reserve fund deposit	<b>1,500,000</b>	1,500,000
Securities and Futures Commission ("SFC")		
– deposits for responsible officers	<b>250,000</b>	250,000
	<b>2,155,000</b>	2,180,000

The carrying amount of these assets at the balance sheet date approximates their fair value.

### 19. INVESTMENTS IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Unlisted shares, at cost	<b>7,114,760</b>	4,771,260

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 19. INVESTMENTS IN SUBSIDIARIES (continued)

Details of the Company's principal subsidiaries as at 31st December, 2005 are as follows:

Name of company	Place of incorporation/ operation	Particulars of issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
International Financial Network Holdings (BVI) Limited (formerly known as "Stockmartnet Holdings (BVI) Limited")	The British Virgin Islands	611,700 ordinary shares of US\$1 each	100%	–	Investment holding
International Financial Network Capital (Singapore) Pte. Ltd. (formerly known as "Stockmartnet Capital (Singapore) Pte., Ltd.")	Singapore	500,000 ordinary share of S\$1 each	100%	–	Provision of corporate finance services
Stockmartnet Limited	Hong Kong	3 ordinary shares of HK\$1 each	–	100%	Securities trading
International Financial Network Capital Limited (formerly known as "Stockmartnet Capital Limited")	Hong Kong	1,000,000 ordinary shares of HK\$1 each	–	100%	Provision of corporate finance services
International Financial Network Securities Limited (formerly known as "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
International Financial Network Futures Limited (formerly known as "Stockmartnet Futures Limited")	Hong Kong	12,000,000 ordinary shares of HK\$1 each	–	100%	Futures contracts dealing

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 19. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ operation	Particulars of issued and paid up share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
International Financial Network Processing Services Limited (formerly known as "Stockmartnet Processing Services Limited")	Hong Kong	2 ordinary shares of HK\$1 each	–	100%	Provision of a trading platform
International Financial Network Technology Limited (formerly known as "Stockmartnet Technology Limited")	Hong Kong	1,000,000 ordinary shares of HK\$1 each	–	100%	Dormant

### 20. TRADE RECEIVABLES

	The Group	
	2005 HK\$	2004 HK\$
Accounts receivable arising from equities broking:		
Margin clients	<b>2,432,150</b>	408,808
Cash clients	<b>41,852</b>	1,442,732
Brokers and dealers	<b>6</b>	–
HKSCC (net)	–	5,544,126
Accounts receivable arising from futures broking:		
Brokers and dealers	<b>258,955</b>	865,016
HKFECC	<b>188,889</b>	405,100
Other trade receivables	<b>90,487</b>	1,703
	<b>3,012,339</b>	8,667,485

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 20. TRADE RECEIVABLES (continued)

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\$12,550,000 as at 31st December, 2005 (2004: HK\$2,792,000). No aged analysis is disclosed as, in the opinion of the Directors of the Company, the aged analysis does not give additional value in view of the nature of business of securities margin financing.

The settlement terms of accounts receivable arising from equities broking are one or two trade days after the trade execution date, and accounts receivable arising from futures broking are one trade day after the trade execution date. Except for the accounts receivable from margin clients as mentioned above, the age of these balances is within 30 days.

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

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
0 - 30 days	<b>26,757</b>	1,703
31 - 60 days	–	–
61 - 90 days	–	–
91 - 180 days	<b>63,730</b>	–
	<hr/>	
	<b>90,487</b>	1,703
	<hr/> <hr/>	

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

The fair values of the Group's trade receivables included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

### 21. OTHER AMOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

The fair values of the Group's and the Company's other amounts receivable, prepayments and deposits included in the amounts at the balance sheet date approximate the corresponding carrying amounts.



## Notes to the Financial Statements

For the year ended 31st December, 2005

### 22. TRADE PAYABLES

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Accounts payable arising from equities broking:		
Margin clients	<b>1,872,390</b>	2,062,559
Cash clients	<b>2,397,144</b>	8,185,407
HKSCC (net)	<b>389,420</b>	–
Accounts payable arising from futures broking:		
Clients	<b>352,011</b>	1,099,294
Other trade payables	<b>241,253</b>	691,552
	<b>5,252,218</b>	12,038,812

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 the equities broking are one or two trade days after the trade execution date. Except for the accounts payable to margin clients as mentioned above, the age of these balances is within 30 days.

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

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

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
0 - 30 days	<b>1,342</b>	691,552
31 - 60 days	–	–
61 - 90 days	–	–
91 - 180 days	–	–
181 - 365 days	<b>86,729</b>	–
Over 365 days	<b>153,182</b>	–
	<b>241,253</b>	691,552

The fair values of the Group's trade payables included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 23. OTHER AMOUNTS PAYABLE AND ACCRUED CHARGES

The fair values of the Group's and the Company's other amounts payable and accrued charges included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

### 24. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
As at 1st January, 2005	–	–
Additions	<b>2,281,183</b>	–
Disposal	<b>(1,908,202)</b>	–
Revaluation surplus transfer to equity	<b>92,543</b>	–
	<hr/>	
As at 31st December, 2005	<b>465,524</b>	–
	<hr/> <hr/>	
Available-for-sale financial assets include the following:		
Equity securities listed on the Stock Exchange, at market value	<b>465,524</b>	–
	<hr/> <hr/>	

### 25. BANK BALANCES AND CASH

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Cash at bank and in hand	<b>27,185,227</b>	24,864,467
Short-term bank deposit	<b>5,081,142</b>	–
	<hr/>	
	<b>32,266,369</b>	24,864,467
	<hr/> <hr/>	

The effective interest rate on short-term bank deposit was 3.6% per annum. The deposit has a maturity of 15 days.

	<b>The Company</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Cash at bank and in hand	<b>1,309,731</b>	1,285,514
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## Notes to the Financial Statements

For the year ended 31st December, 2005

### 25. BANK BALANCES AND CASH (continued)

Bank balances and cash include the following for the purposes of the cash flow statement:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Cash at bank and in hand	<b>27,185,227</b>	24,864,467
Short-term bank deposit	<b>5,081,142</b>	–
	<b>32,266,369</b>	24,864,467
<i>Less:</i> Segregated trust bank balances	<b>(5,511,911)</b>	(4,623,957)
Cash and cash equivalents	<b>26,754,458</b>	20,240,510

### 26. AMOUNTS DUE FROM SUBSIDIARIES

	<b>The Company</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Amounts due from subsidiaries	<b>80,395,965</b>	66,837,331
Provision for impairment of receivables	<b>(43,000,000)</b>	(32,000,000)
	<b>37,395,965</b>	34,837,331

During the year ended 31st December, 2005, the Company reviewed the recoverability of amounts due from subsidiaries and an additional amount of HK\$11,000,000, 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 fair values.

The amounts are unsecured, interest-free and repayable on demand.

The fair values of the amounts due included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

### 27. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

The fair values of the amounts due included in the amounts at the balance sheet date approximate the corresponding carrying amounts.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 28. SHARE CAPITAL

		<b>Number of issued shares</b>	<b>Ordinary shares</b>	<b>Share premium</b>	<b>Total</b>
	<i>Note</i>	(in thousands)	HK\$	HK\$	HK\$
As at 1st January, 2004 and 31st December, 2004		764,886	7,648,860	80,974,438	88,623,298
Issue of shares through:					
Subscription	<i>(i)</i>	1,000,000	10,000,000	16,000,000	26,000,000
Pre-IPO Share Option Plan	<i>(ii)</i>	5,148	51,480	48,520	100,000
Subscription	<i>(iii)</i>	280,000	2,800,000	4,480,000	7,280,000
Share issue expenses	<i>(i)</i>	–	–	(1,881,603)	(1,881,603)
<b>As at 31st December, 2005</b>		<b>2,050,034</b>	<b>20,500,340</b>	<b>99,621,355</b>	<b>120,121,695</b>

The total authorised number of ordinary shares is 10,000,000,000 shares (2004: 10,000,000,000 shares) with a par value of HK\$0.01 per share (2004: HK\$0.01 per share). All issued shares are fully paid.

*Notes:*

- (i) On 29th April, 2005, 1,000,000,000 shares of HK\$0.01 each were issued by way of subscription at a subscription price of HK\$0.026 per share. The ordinary shares issued have the same rights as the other shares in issue. The related transaction costs amounting to HK\$1,881,603 have been netted off with the proceeds.
- (ii) On 1st June, 2005, 5,148,000 shares of HK\$0.01 each were issued at a subscription price of approximately HK\$0.019 per share by exercise of options under the Pre-IPO Share Option Plan (*Note 30*). The ordinary shares issued have the same rights as the other shares in issue.
- (iii) On 29th June, 2005, 280,000,000 shares of HK\$0.01 each were issued at a subscription price of HK\$0.026 per share by exercise of options granted under a conditional subscription agreement (*Note 31*). The ordinary shares issued have the same rights as the other shares in issue.

### 29. 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 International Financial Network Holdings (BVI) Limited (formerly known as "Stockmartnet Holdings (BVI) Limited") pursuant to the Corporate Reorganisation.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 30. SHARE OPTION SCHEMES

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. 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. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

#### i. 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 options were granted under the Share Option Scheme during the year ended 31st December, 2005.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 30. SHARE OPTION SCHEMES (continued)

#### 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.

Options granted under the Pre-IPO Share Option Plan may be exercised at any time after the two-year lock-up period ending 11th January, 2004 in accordance with the terms of the Pre-IPO Share Option Plan. No further options will be offered or granted upon listing of the shares of the Company on GEM.

Movements in the number of share options outstanding and their related weighted averaged exercise prices are as follows:

	2005		2004	
	Exercise price per share HK\$ (approximately)	Options (thousands)	Exercise price per share HK\$ (approximately)	Options (thousands)
As at 1st January	0.019	5,148	0.019	5,148
Exercised	0.019	(5,148)	–	–
As at 31st December		–		5,148

Options exercised in 2005 resulted in 5,148,000 ordinary shares of HK\$0.01 per share being issued at approximately HK\$0.019 each. The related weighted averaged share price at the time of exercise was HK\$0.037 per share.

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 31. SUBSCRIPTION AGREEMENT INVOLVING ISSUE OF OPTIONS ON THE COMPANY'S SHARE

The Company entered into a conditional subscription agreement pursuant to which the Company, amongst others, granted an aggregate of 350,000,000 new share options to Asia Network Holdings Limited (a corporation controlled by Mr. Richard Yingneng Yin), Mr. Richard Yingneng Yin and Dr. Seah Chin Yew on a one-off basis. The transaction was approved by the Shareholders at an extraordinary general meeting of the Company held on 1st April, 2005.

Movements in the number of share options outstanding and their related weighted averaged exercise prices are as follows:

	2005		2004	
	Exercise price per share HK\$ (approximately)	Options (thousands)	Exercise price per share HK\$ (approximately)	Options (thousands)
As at 1st January	–	–	–	–
Granted	<b>0.026</b>	<b>350,000</b>	–	–
Exercised	<b>0.026</b>	<b>(280,000)</b>	–	–
As at 31st December	<b>0.026</b>	<b>70,000</b>	–	–

Options exercised in 2005 resulted in 280,000,000 ordinary shares of HK\$0.01 per share being issued at approximately HK\$0.026 each. The related weighted averaged share price at the time of exercise was HK\$0.038 per share.

All the above 70,000,000 shares options outstanding at the end of the year have expiry date of 28th April, 2009 and an exercise price of HK\$0.026. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 70,000,000 additional ordinary shares of the Company and additional share capital of HK\$700,000 and share premium of HK\$1,120,000 (before issue expenses).

### 32. 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 assets and liabilities and their carrying amounts as at 31st December, 2004 and 2005.

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, 2005, the unprovided deferred tax asset of the Group and of the Company are as follows:

	The Group		The Company	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Tax effect of temporary difference attributable to estimated tax losses	<b>11,868,992</b>	12,843,213	<b>2,907,234</b>	5,347,547

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 33. BANKING FACILITIES

The Company has given a guarantee to a bank in respect of general facility of HK\$45,000,000 (2004: HK\$45,000,000) granted to one of its subsidiaries. As at the balance sheet date, such facility was not utilised by the subsidiary (2004: Nil).

### 34. 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	
	2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Within one year	<b>688,470</b>	614,239	–	614,239
In the second to fifth years inclusive	<b>975,366</b>	–	–	–
	<b>1,663,836</b>	614,239	–	614,239

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

#### ii. Financial commitments

On 8th January, 2003, two subsidiaries of the Group, namely International Financial Network Processing Services Limited (formerly known as "Stockmartnet Processing Services Limited") ("IFN Processing Services") and International Financial Network Securities Limited (formerly known as "Stockmartnet Financial Services Limited") ("IFN Securities"), entered into two agreements ("Standard Services Agreement" and "Enhanced Services Agreement") with 2GoTrade.com Limited ("2Go Trade") respectively to enable the Group to operate a trading engine and trade securities, futures and options through the technology platform provided by 2Go Trade.



## Notes to the Financial Statements

For the year ended 31st December, 2005

### 34. COMMITMENTS (continued)

#### ii. Financial commitments (continued)

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

According to the Enhanced Services Agreement, IFN Securities is obliged to pay a fixed monthly minimum charges. The agreement will end on 30th November, 2006 and is subject to renewal upon expiry by mutual agreement between 2Go Trade and IFN Securities. As at 31st December, 2005, the Group's financial commitments under the aforesaid agreement amounted to HK\$198,000, which will fall due within one year.

### 35. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following significant related party transactions:

	<i>Note</i>	<b>The Group</b> <b>2005</b> <b>HK\$</b>	2004 HK\$
Commission income earned from certain directors of the Company	<i>(i)</i>	<b>267,557</b>	–
Rental paid to a related company of which an executive director has beneficial interest	<i>(ii)</i>	<b>59,900</b>	–
Legal and professional fee paid to a related company of which a non-executive director has beneficial interest	<i>(ii)</i>	<b>75,000</b>	–

Notes:

- (i) The commission charges were substantially in line with those offered by the Group to its customers. As at 31st December, 2005, the outstanding balances with these related parties were HK\$970,212 in aggregate, which were included in the accounts payable to cash clients arising from equities broking as disclosed in note 22 to the financial statements. The amounts due were unsecured, interest-free and repayable within one or two trade days after the trade execution date.
- (ii) The charges were made according to prices and terms comparable with those contracted with independent third party of the Group. There was no outstanding balance with these related parties as at 31 December 2005 (2004: Nil).

## Notes to the Financial Statements

For the year ended 31st December, 2005

### 35. RELATED PARTY TRANSACTIONS (continued)

#### Key management compensation of the Group

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Salaries and other short-term employee benefits	<b>4,242,890</b>	2,865,000
Post-employment benefits	<b>36,000</b>	24,000
	<b>4,278,890</b>	2,889,000

Further details of directors' emoluments are included in note 10 to the financial statements.

### 36. POST BALANCE SHEET EVENT

- (i) On 12th December 2005, Stockmartnet Limited ("SL"), an indirect wholly owned subsidiary of the Company, entered into a conditional agreement with Mr. Lim Chee Tet ("LCT"), an independent third party, for the acquisition of 48,800,000 shares (the "Sale Shares") of Tastyfood Holdings Ltd. ("Tastyfood"), a company incorporated in Singapore and the shares of which are listed on the Singapore Exchange Securities Trading Limited (the "Acquisition"). The Sale Shares represents approximately 29.9% of the issued share capital of Tastyfood as at the date of completion of the acquisition of the Sale Shares.

The total consideration for the acquisition is S\$2,440,000 (equivalent to approximately HK\$11,224,000), at the price of S\$0.05 per Tastyfood Share (equivalent to approximately HK\$0.23). As at the balance sheet date, an aggregate of S\$2,440,000 has been paid by the Group to LCT as deposit for the Acquisition.

The Acquisition was subsequently approved by the shareholders of the Company pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 8th March, 2006.

Further details of the Acquisition are set out in the announcements made by the Company on 3rd January, 2006, 23rd January, 2006 and 8th March, 2006 and the circular of the Company dated 14th February, 2006.

- (ii) Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 8th March, 2006, the name of the Company was changed from Stockmartnet Holdings Ltd. 金融社控股有限公司 to International Financial Network Holdings Ltd. 國際金融社控股有限公司.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2005 HK\$	2004 HK\$	2003 HK\$	2002 HK\$	2001 HK\$
<b>RESULTS</b>					
Turnover	<b>91,909,528</b>	6,737,390	5,320,157	1,764,834	521,030
Loss before income tax	<b>(12,022,840)</b>	(10,757,866)	(16,963,614)	(22,646,492)	(15,482,890)
Income tax	-	-	-	-	-
Loss attributable to equity holders of the Company	<b>(12,022,840)</b>	(10,757,866)	(16,963,614)	(22,646,492)	(15,482,890)
<b>As at 31 December</b>					
	<b>2005 HK\$</b>	2004 HK\$	2003 HK\$	2002 HK\$	2001 HK\$
<b>ASSETS AND LIABILITIES</b>					
Total assets	<b>52,239,726</b>	39,092,615	53,219,141	59,657,217	11,539,274
Total liabilities	<b>(6,125,534)</b>	(12,538,620)	(15,907,280)	(5,381,742)	(17,869,341)
Net assets/ (liabilities)	<b>46,114,192</b>	26,553,995	37,311,861	54,275,475	(6,330,067)