



金融社控 股 有 限 公 司
STOCKMARTNET HOLDINGS LTD.
(incorporated in the Cayman Islands with limited liability)



Third Quarterly Report **2004**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "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 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 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 GEM of the Exchange (the "GEM Listing Rules"), the Securities and Futures Commission (the "SFC") regulates Stockmartnet Holdings Ltd. (the "Company" and, together with its subsidiaries, the "Group") in relation to the listing of its shares on the Exchange. The SFC and the Exchange take no responsibility for the contents of this report, makes 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 enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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.

HIGHLIGHTS

The Group recorded a turnover of approximately HK\$5,219,000 for the nine months ended 30th September, 2004.

Net loss attributable to shareholders for the nine months ended 30th September, 2004 amounted to approximately HK\$8,144,000.

Loss per share was approximately 1.07 HK cents.

The Directors do not recommend the payment of a dividend for the nine months ended 30th September, 2004.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") announces the unaudited condensed consolidated results of the Group for the three months and nine months ended 30th September, 2004 together with the comparative unaudited figures for the corresponding periods in 2003.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)
Turnover	3	1,501	1,581	5,219	3,260
Other operating income	4	13	57	68	262
		<u>1,514</u>	<u>1,638</u>	<u>5,287</u>	<u>3,522</u>
Amortisation of intangible assets		(167)	(154)	(500)	(618)
Loss on disposal of property and equipment		-	(1)	-	(124)
Depreciation		(191)	(212)	(584)	(647)
Finance costs		-	-	(18)	-
Staff costs, including directors' remuneration		(1,529)	(2,765)	(5,124)	(8,927)
Other operating expenses		(2,131)	(2,320)	(7,205)	(7,338)
		<u>(2,504)</u>	<u>(3,814)</u>	<u>(8,144)</u>	<u>(14,132)</u>
Loss before taxation					
Income tax	5	-	-	-	-
Net loss for the period		<u>(2,504)</u>	<u>(3,814)</u>	<u>(8,144)</u>	<u>(14,132)</u>
Loss per share					
- basic and diluted	6	<u>(0.33 cents)</u>	<u>(0.50 cents)</u>	<u>(1.07 cents)</u>	<u>(1.85 cents)</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2004

	Share Capital HK\$'000 (Unaudited)	Share premium HK\$'000 (Unaudited)	Special reserve HK\$'000 (Unaudited)	Accumulated losses HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1st January, 2003	7,649	80,974	4,779	(39,127)	54,275
Net loss for the period	-	-	-	(14,132)	(14,132)
At 30th September, 2003	7,649	80,974	4,779	(53,259)	40,143
Net loss for the period	-	-	-	(2,831)	(2,831)
At 31st December, 2003 and 1st January, 2004	7,649	80,974	4,779	(56,090)	37,312
Net loss for the period	-	-	-	(8,144)	(8,144)
At 30th September, 2004	<u>7,649</u>	<u>80,974</u>	<u>4,779</u>	<u>(64,234)</u>	<u>29,168</u>

Notes:

1. GENERAL

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Group have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The unaudited condensed consolidated financial statements of the Group have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2003.

3. TURNOVER

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

	Three months ended 30th September,		Nine months ended 30th September,	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Income from trading platform	35	97	108	285
Commission income/ Infrastructure broking service fees	1,441	1,442	4,987	2,805
Interest income from clients	25	42	124	170
	<u>1,501</u>	<u>1,581</u>	<u>5,219</u>	<u>3,260</u>

4. OTHER OPERATING INCOME

	Three months ended 30th September,		Nine months ended 30th September,	
	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Interest income from bank deposits	1	26	5	153
Sundry income	12	31	63	109
	<u>13</u>	<u>57</u>	<u>68</u>	<u>262</u>

5. INCOME TAX

No provision for Hong Kong Profits Tax has been made as the Group incurred a tax loss for the periods (three months and the nine months ended 30th September, 2003: Nil).

No deferred tax liabilities have been recognised as the Group did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 30th September, 2004 (30th September, 2003: Nil).

No deferred tax asset has been recognised in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which any such asset can be utilised (30th September, 2003: Nil).

6. LOSS PER SHARE – BASIC AND DILUTED

The calculation of the basic loss per share for the three months and nine months ended 30th September, 2004 is based on the net loss of the Group of approximately HK\$2,504,000 and HK\$8,144,000 (three months and nine months ended 30th September, 2003: loss of approximately HK\$3,814,000 and HK\$14,132,000) and 764,886,000 ordinary shares (three months and nine months ended 30th September, 2003: 764,886,000 ordinary shares) in issue during the period.

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

7. SHARE CAPITAL

	Number of shares	HK\$'000
	<i>'000</i>	<i>(Unaudited)</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31st December, 2003 and 30th September, 2004	<u>10,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 31st December, 2003 and 30th September, 2004	<u>764,886</u>	<u>7,649</u>

8. DIVIDEND

The Directors do not recommend the payment of a dividend by the Company for the nine months ended 30th September, 2004 (for the nine months ended 30th September, 2003: Nil).

BUSINESS REVIEW

The first nine months of 2004 recorded an improved financial result compared to the same period last year. Despite the management's continued efforts to implement overall control measures on staff and other related costs, the income generated from the Group's principal activities was insufficient to enable the Group to break even.

Outlook

In view of the continuing challenging operating environment, the Group intends to reduce expenditure further relating to its on-going operations.

As disclosed in the announcement dated 8th October, 2004, the Board received a letter from the financial adviser to an investor concerning a proposed acquisition of a controlling interest in the Company by subscribing for new Company shares possibly followed by a general offer for the remaining shares and outstanding options of the Company (the "Proposal"). The Proposal is not legally binding and may or may not proceed.

Financial Review

The turnover of the Group was approximately HK\$5,219,000 for the nine months ended 30th September, 2004 (nine months ended 30th September, 2003: approximately HK\$3,260,000) representing an increase of 60% from the previous corresponding period, and it was the result of the improved market sentiment and activities. During the period, the Group had further enforced and implemented control measures on all expenses including in particular staff costs by reducing headcount. As a result, the net loss of the Group for the period ended 30th September, 2004 decreased to approximately HK\$8,144,000 from approximately HK\$14,132,000 during the corresponding period in 2003.

Liquidity and Financial Resources

As at 30th September, 2004, the Group had total assets of approximately HK\$41,243,000, including bank balances and cash of approximately HK\$27,504,000. Save for borrowings incidental to the Group's margin financing business, the Group did not incur any bank overdraft or loan during the period ended 30th September, 2004. The Group financed its operations with its own internal funding. With net current assets of approximately HK\$23,769,000, the Group remained in a healthy and liquid position as at 30th September, 2004.

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

Employee information

As at 30th September, 2004, the Group had rationalized its workforce to 11 employees (30th September, 2003: 19). For the nine months ended 30th September, 2004, the total staff costs amounted to approximately HK\$5,124,000 (nine months ended 30th September, 2003: approximately HK\$8,927,000). The Group's remuneration policies are determined on the basis of the performance and experience of individual employees.

Capital structure

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

Significant investments

For the nine months ended 30th September, 2004, the Group had made no significant investments.

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

As at 30th September, 2004, the interests and short positions of the Directors including the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company

Name of Director	Number of shares beneficially held			Approximate percentage shareholdings
	Personal	Corporate	Total	
Seto John Gin Chung	4,719,000	–	4,719,000	0.62%
Lee Yiu Sun	4,719,000	–	4,719,000	0.62%
Yue Wai Keung	4,719,000	2,574,000 <i>(Note 1)</i>	7,293,000	0.96%
Chan Henry	4,719,000	2,574,000 <i>(Note 2)</i>	7,293,000	0.96%
Chan Kai Yu, Martin	4,719,000	2,574,000 <i>(Note 3)</i>	7,293,000	0.96%
Chan Hung Ti	4,719,000	2,574,000 <i>(Note 4)</i>	7,293,000	0.96%
Cheng Chi Lam	7,293,000	–	7,293,000	0.96%
Espina Anthony	5,061,000	2,574,000 <i>(Note 5)</i>	7,635,000	1.00%
Lee Jor Hung	4,719,000	2,574,000 <i>(Note 6)</i>	7,293,000	0.96%
Lee Sheung Yam	4,719,000	–	4,719,000	0.62%
Wong Wai Sum	4,119,000 <i>(Note 7)</i>	2,574,000 <i>(Note 8)</i>	6,693,000	0.88%

Notes:

- Mr. Yue Wai Keung was deemed to be interested in 2,574,000 shares through his controlling interest in Luen Fat Securities Company Limited.
- Mr. Chan Henry was deemed to be interested in 2,574,000 shares through his controlling interest in Sanfull Securities Limited.
- Mr. Chan Kai Yu, Martin was deemed to be interested in 2,574,000 shares through his controlling interest in Wellfull Securities Company Limited.
- Mr. Chan Hung Ti was deemed to be interested in 2,574,000 shares through his controlling interest in Troopers Securities Limited.
- Mr. Espina Anthony was deemed to be interested in 2,574,000 shares through his controlling interest in Goldride Securities Limited.
- Mr. Lee Jor Hung was deemed to be interested in 2,574,000 shares through his controlling interest in DL Brokerage Limited.
- During the nine months ended 30th September, 2004, the Company became aware that 600,000 shares held by Mr. Wong Wai Sum ("Mr. Wong") had been transferred to two independent third parties as a gift.
- Mr. Wong was deemed to be interested in 2,574,000 shares through his controlling interest in Hing Wong Securities Limited.

Long positions in underlying shares of the Company

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

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 per share (approximately) HK\$
		Outstanding as at 1st January, 2004	Lapsed during the period	Outstanding as at 30th September, 2004		
So Kin Wing	17/12/2001	5,148,000	-	5,148,000	11/01/2004 – 16/12/2010	0.019
		<u>5,148,000</u>	<u>-</u>	<u>5,148,000</u>		

No options were offered or granted under the Pre-IPO Share Option Plan during the nine months ended 30th September, 2004 as the right to offer or grant options under the Pre-IPO Share Option Plan ended upon the listing of the Company's shares on GEM.

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

No options under the Share Option Scheme were outstanding at the beginning of nor were any such options granted during the nine months ended 30th September, 2004.

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

Long positions in debentures of the Company

No long positions of the Directors including 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 Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Short positions in shares of the Company

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

Short positions in underlying shares of the Company

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

Save as disclosed above, as at 30th September, 2004, none of the Directors including the chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules.

During the nine months ended 30th September, 2004, there was no debt securities issued by any member of the Group at any time.

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

As at 30th September, 2004, the following persons (other than the Directors including the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares of the Company

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

Notes:

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

Long positions in underlying shares of the Company

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

Short positions in shares of the Company

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

Short positions in underlying shares of the Company

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

Save as disclosed above, as at 30th September, 2004, the Company had not been notified of any other person who had an interest or short position in the shares or underlying shares of the Company and was required to be recorded in the register required to be kept under Section 336 of the SFO and/or was directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

During the nine months ended 30th September, 2004, there was no debt securities issued by any member of the Group at any time.

INTEREST IN COMPETITORS

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

Name of company	Name of Director with controlling interest
Luen Fat Securities Company Limited	Mr. Yue Wai Keung
Sanfull Securities Limited	Mr. Chan Henry
Wellfull Securities Company Limited	Mr. Chan Kai Yu, Martin
Troopers Securities Limited	Mr. Chan Hung Ti
Goldride Securities Limited	Mr. Espina Anthony
DL Brokerage Limited	Mr. Lee Jor Hung
Hing Wong Securities Limited	Mr. Wong Wai Sum

SPONSOR'S INTERESTS

As updated and notified by UOB Asia (Hong Kong) Limited (the "Sponsor") and save as disclosed below, neither the Sponsor nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any material interests in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 30th September, 2004. Pursuant to the deed of novation dated 2nd December, 2002 as set out in the Company's announcement of the same date, the Sponsor has assumed the continuing sponsor role and will continue to act as the continuing sponsor to the Company for a term ending on 31st December, 2004. The Sponsor has and will continue to receive fees for the provision of such services.

AUDIT COMMITTEE

The audit committee comprises three members, being Mr. Chung Shui Ming, Timpson and Mr. Tsui Yiu Wa, Alec, independent non-executive Directors, and Mr. Lee Yiu Sun, a Vice Chairman and a non-executive Director. Mr. Lee Jor Hung, a non-executive Director acts as an alternate to Mr. Lee Yiu Sun. During the nine months ended 30th September, 2004, the audit committee had met three times.

The audit committee has reviewed the financial statements of the Group for the three months and nine months ended 30th September, 2004 and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure has been made in respect thereof. It has also reviewed the financial reporting process and the adequacy and effectiveness of the internal control system of the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the nine months ended 30th September, 2004, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

As at the date of this report, Mr. Chick Siu Yee, Eddy and Mr. So Kin Wing are executive Directors, 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 and Mr. Wong Wai Sum are non-executive Directors, Mr. Chung Shui Ming, Timpson, Mr. Fung Cheong Yee, Alfred and Mr. Tsui Yiu Wa, Alec are independent non-executive Directors.

By order of the Board
Chick Siu Yee, Eddy
Chief Executive Officer

Hong Kong, 5th November, 2004