

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

(incorporated in Cayman Islands with limited liability)

Third Quarterly Report 2002



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. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

Pursuant to Chapter 36 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”), the Securities and Futures Commission regulates Stockmartnet Holdings Limited (the “Company”) in relation to the listing of its shares on the Stock Exchange. The Securities and Futures Commission takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims 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 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 of the Company, 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.

HIGHLIGHT

The Group recorded a turnover of HK\$ 1,228,000 for the nine months ended 30th September, 2002.

Loss attributable to shareholders for the nine months ended 30th September, 2002 amounted to HK\$ 14,892,000.

Loss per share was 1.98 HK cents.

The directors of the Company (the "Directors") do not recommend the payment of dividend for the nine months ended 30th September, 2002.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months and nine months ended 30th September, 2002 together with the comparative unaudited figures for the corresponding periods in 2001.

CONSOLIDATED INCOME STATEMENT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2002

	Notes	Three months ended 30th September,		Nine months ended 30th September,	
		2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Turnover	2	373	-	1,228	-
Cost of services		(899)	-	(3,617)	-
Gross loss		(526)	-	(2,389)	-
Other revenue		255	83	731	249
Operating expenses		(4,975)	(4,463)	(13,234)	(10,109)
Loss before taxation		(5,246)	(4,380)	(14,892)	(9,860)
Taxation	3	-	-	-	-
Loss attributable to shareholders		<u>(5,246)</u>	<u>(4,380)</u>	<u>(14,892)</u>	<u>(9,860)</u>
Loss per share					
- basic and diluted	4	<u>(0.69 cents)</u>	<u>(0.86 cents)</u>	<u>(1.98 cents)</u>	<u>(1.94 cents)</u>

Notes:

1. GROUP REORGANISATION AND BASIS OF PREPARATION

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

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

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

The Group resulting from the Corporate Reorganisation is regarded as a continuing entity. The unaudited results have been prepared and presented using the merger basis of accounting as if the current group structure had been in existence since 1st January, 2001 and throughout both accounting periods.

2. TURNOVER

Turnover represents the net invoiced value for the fees charged to customers in relation to the operation of trading engine and commission for the period.

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and loss before taxation were derived from Hong Kong.

3. TAXATION

No provision for Hong Kong Profits Tax has been made as the Group incurred a tax loss for the period.

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

4. LOSS PER SHARE – BASIC AND DILUTED

The calculation of the loss per share for the three months and nine months ended 30th September, 2002 is based on the loss of the Group of approximately HK\$5,246,000 and HK\$14,892,000 (three months and nine months ended 30th September, 2001: loss of approximately HK\$4,380,000 and HK\$9,860,000) and on the weighted average number of 761,094,000 and 751,789,588 shares respectively (three months and nine months ended 30th September, 2001: 508,014,000 shares) in issue during the respective periods on the assumption that the Corporate Reorganisation had been completed on 1st January, 2001.

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

5. SHARE CAPITAL AND RESERVES*SHARE CAPITAL*

	Number of shares '000	HK\$'000
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
At 31st December, 2001 and 30th September, 2002	<u>10,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 31st December, 2001	508,014	5,080
Issue of shares on listing	<u>253,080</u>	<u>2,531</u>
At 30th September, 2002	<u>761,094</u>	<u>7,611</u>

On 11th January, 2002, a total of 253,080,000 new ordinary shares of HK\$0.01 each were issued at a price of HK\$0.38 per share (the "Share Issue"). As a result of Share Issue, the Group received gross proceeds of approximately HK\$96,170,000, resulting in its financial position being improved from net liabilities position to net assets position. A share premium of approximately HK\$93,639,000 was capitalised as a result of the Share Issue which was net off by the share issue expenses amounting to approximately HK\$13,392,000.

RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2002	291	4,779	(16,480)	(11,410)
Issue of share on listing	93,639	-	-	93,639
Share issue expenses	(13,392)	-	-	(13,392)
Loss for the period	-	-	(14,892)	(14,892)
At 30th September, 2002	<u>80,538</u>	<u>4,779</u>	<u>(31,372)</u>	<u>53,945</u>

6. DIVIDEND

The Directors do not recommend the payment of any dividend by the Company for the nine months ended 30th September, 2002.

BUSINESS REVIEW AND OUTLOOK

The ongoing poor global economic performance continues to have negative impacts on the local economy. The financial services industry, amongst others, has been a victim of the conservatism of the great majority of the investors and consumers as reflected in their investment and consuming habits. Many small and medium sized brokerages serving individual retail investors bore the brunt of the resulting adversity. As an organization targeted to serve small and medium sized stockbroking firms, our planned business initiatives were not immune from the flat affect of the general market environments. The progress of our various business initiatives during the reporting period was as follows:-

Business Review*Market Overview*

Trading volume in the stock market maintained low daily turnover levels of between HK\$4 to HK\$6 billion. According to published reports, the collective market share of the category C brokers (who make up the small and medium sized stockbroking firms) was approximately 18% during the three-month period ended 30th September, 2002. The shrinking market

share of the category C brokers reflected the ongoing downtrend in individual investor stock market participation levels. This in turn exacerbated the challenges facing small brokers in maintaining on-going concern status. Under such market conditions, we anticipate that the majority of small brokers will tend to cut costs rather than to invest for the foreseeable future.

Services Development

Trading Engine

Due to low market turnover, efficiency is no longer the priority of many prospective users of our trading engine. Some stockbroking firms that were adopting a "wait and see attitude" decided to hold back their decision to subscribe to the Group's services. Barring a concrete indication of a market turnaround, we do not expect an upturn in interested users.

Lukewarm user interest was not improved by a technical incident occurring on 27 August, 2002 when our trading platform experienced systemic failure and could not be accessed by our users for forty minutes during a period when the market was open. The system was resuscitated afterwards and no similar problem re-occurred. However, the root cause of the problem remains unidentified by our system provider. Under the circumstances, and given the continued low trading volume, certain of our existing users have demanded the termination of their subscription to our services before the end of December 2002. We will monitor the situation closely and in the meantime, explore other alternatives and contingent plans in order to restore the reliability in our provision of electronic trading services to our users.

Financial Portal

Since our replacement of the information service provider in June 2002, the forms and substances of financial information available for subscription have become more comprehensive. Our users were receptive to the changes and we will continue to identify additional creative and cost-effective information service providers who are prepared to offer value for money services by partnering with us.

Back Office System

We have been identifying various suitable system options in order to provide the most cost effective system solution with competitive pricing to meet the diverse needs of small brokers. The process is proceeding well and we are confident that we will launch our selected solution before the end of this year as stipulated in the Prospectus.

Margin Financing

We have been promoting our margin financing services to small brokers. A number of interested small brokers have expressed positive feedback. We anticipate that once the commercial terms and conditions are agreed with these interested parties, we would gradually roll out the services to a wider majority of prospective users.

Underwriting and Placement

The Company's underwriting and placement service has been in place for a while. However, a general lack of interest in subscribing for new shares through IPOs has adversely affected the interest levels in the service. Nevertheless, we expect the interest levels will pick up when market conditions improve.

Compliance of Regulatory Requirement

Following the approval by the Securities and Futures Commission for Stockmartnet Financial Services Limited to offer margin financing services to brokers, the Group is in the process of receiving approval to extend the facilities to retail investors. Also, in October 2002, the Stock Exchange approved the transfer of a trading right from First Sign Securities Limited to us. We expect that the trading right will facilitate the implementation of our share margin financing services.

Staffing Resources

To cope with the roll out of various development initiatives in the context of the current bearish market conditions, the Management has conducted a recent organisation to be completed in two phases. The objectives are

to maximise the Group's internal resources to support the on-going business development and to save operational costs to the furthest extent possible. The first phase was completed by the end of October 2002 and the second phase is expected to be completed before the end of first quarter in 2003.

New Marketing Initiatives

In view of the increasingly challenging operating conditions facing many small brokers, we have received a number of requests by prospective users to integrate the provision of various business services more fully to offer a "one stop" integrated suite of services that would reduce their total costs. We hosted a seminar on 4th November, 2002 to all interested parties to promote the services that we are inclined to offer in light of current industry requirements. Given the response, we stand ready to host more seminars of similar nature to improve the understanding of our business initiatives by prospective users in future.

Outlook

Whether market conditions will improve in the short term remains a speculative issue that only time can address. It is obvious that for many small brokers, the immediate priority is to save costs so that they can extend their survival period with minimum carrying cost pending signs indicating a market turnaround. As an organisation established to assist small brokers, we are dedicated to offer solutions to accommodate their needs and therefore the provision of cost-saving solutions must be our focus during such market conditions.

Although the Directors remain of the firm view that the adoption of electronic facilities will characterize the long-term trend, it behooves the Group to be equally practical by acceding to commercial reality in satisfying the short-term needs of our prospective users.

Our strategy is therefore to assist small brokers in addressing their immediate concerns whilst being-prepared to "pave the way" when market conditions improve. Thus, when trading volume improves, our users will have the power to handle their activities efficiently and electronically.

Financial Review

Turnover for the three months ended 30th September, 2002 amounting to approximately HK\$373,000 (2001: nil). Loss attributable to shareholders reached approximately HK\$5,246,000 (2001: loss of approximately HK\$4,380,000) representing an increase of approximately 19.8% as compared to that of the corresponding period in 2001.

Turnover for the nine months ended 30th September, 2002 amounting to approximately HK\$1,228,000 (2001: nil). Loss attributable to shareholders reached approximately HK\$14,892,000 (2001: loss of approximately HK\$9,860,000) representing an increase of approximately 51.0% as compared to that of the corresponding period in 2001.

The increase in turnover was mainly due to the Group having launched the trading engine to our broker users since the fourth quarter of 2001. The Group also commenced its first underwriting and placement activities in June 2002. The increase in loss attributable to shareholders was mainly due to the increase in operating expenses as the Group began to implement its business plans which included the launch of the above services.

Liquidity and financial resources

The Company was listed on GEM of the Stock Exchange through a placement of 253,080,000 shares. The net proceeds from the placement, after deduction for relevant expenses, were approximately HK\$82,778,000. For the nine months ended 30th September, 2002, the Group used its internal resources as well as the proceeds from the placement to finance its daily operation. As of 30th September, 2002, the Group had no bank borrowing and had cash balance of approximately HK\$58 million to cater for its future development.

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

Employee information

As at 30th September, 2002, the Group had 23 employees working in Hong Kong. The total of employee remuneration, including that of the Directors and provident contributions, for the nine months ended 30th September, 2002 amounted to approximately HK\$10,125,000. The Group remunerates its employees based on their performance, experience and prevailing industry practice.

Capital structure

There has been no change in the capital structure of the Company since the listing of the Company on GEM of the Stock Exchange on 11th January, 2002.

Significant investments

For the nine months ended 30th September, 2002, the Group had no significant investments.

SHARE OPTION SCHEMES

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

On 17th December, 2001, the Company granted 20,592,000 options under the Pre-IPO Share Option Plan to three executive Directors at the exercise price of approximately HK\$0.019 per share which would not be exercisable for at least two years after listing.

Details of such grant to the executive Directors under the Pre-IPO Share Option Plan are as follows:

Name of the Executive Director	No. of underlying shares comprised in the options
Lee Wai Hung, Alan	10,296,000
So Kin Wing	5,148,000
Yuen Yeung Ngam	5,148,000
	20,592,000

During the nine months ended 30th September, 2002, no option was granted under the above share option schemes.

DIRECTORS' INTERESTS IN SHARES

As at 30th September, 2002, the beneficial interests of the Directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of Director	Number of shares beneficially held			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 (Note 1)	7,293,000	0.96%
Chan Henry	4,719,000	2,574,000 (Note 2)	7,293,000	0.96%
Chan Kai Yu, Martin	4,719,000	2,574,000 (Note 3)	7,293,000	0.96%
Chan Hung Ti	4,719,000	2,574,000 (Note 4)	7,293,000	0.96%
Cheng Chi Lam	7,293,000	–	7,293,000	0.96%
Cheung Wah Fung, Christopher	4,719,000	2,574,000 (Note 5)	7,293,000	0.96%
Espina Anthony	4,719,000	2,916,000 (Note 6)	7,635,000	1.00%
Lee Jor Hung	4,719,000	2,574,000 (Note 7)	7,293,000	0.96%
Lee Sheung Yam	4,719,000	–	4,719,000	0.62%
Wong Wai Sum	4,719,000	2,574,000 (Note 8)	7,293,000	0.96%
Lee Wai Hung, Alan	1,980,000	–	1,980,000	0.26%
Yuen Yeung Ngam	96,000	–	96,000	0.01%

Notes:

1. Mr. Yue Wai Keung was deemed to be interested in 2,574,000 shares through his controlling interest in Luen Fat Securities Company Limited.
2. Mr. Chan Henry was deemed to be interested in 2,574,000 shares through his controlling interest in Sanfull Securities Limited.
3. Mr. Chan Kai Yu, Martin was deemed to be interested in 2,574,000 shares through his controlling interest in Wellfull Securities Company Limited.
4. Mr. Chan Hung Ti was deemed to be interested in 2,574,000 shares through his controlling interest in Troopers Securities Limited.
5. Mr. Cheung Wah Fung, Christopher was deemed to be interested in 2,574,000 shares through his controlling interest in Christfund Securities Limited.
6. Mr. Espina Anthony was deemed to be interested in 2,916,000 shares through his controlling interest in Goldride Securities Limited.
7. Mr. Lee Jor Hung was deemed to be interested in 2,574,000 shares through his controlling interest in DL Brokerage Limited.
8. Mr. Wong Wai Sum was deemed to be interested in 2,574,000 shares through his controlling interest in Hing Wong Securities Limited.

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

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBENTURES

Other than the options granted to the executive Directors under the Pre-IPO Share Option Plan as disclosed above, at no time during the nine months ended 30th September, 2002 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 debentures of, the Company or any other body corporate and neither the Directors, nor the chief executive of the Company, nor any of their respective spouse or children under the age of 18, had any right to subscribe for the securities of the Company or any member of the Group, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance shows that no persons had an interest of 10% or more in the issued share capital of the Company as at 30th September, 2002.

INTEREST IN COMPETITORS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which causes or may cause any significant competition with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Worldsec Corporate Finance Limited (the "Sponsor"), 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 benefits or interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30th September, 2002, except that one of the associates of the Sponsor, being one of the founding convertible note holders of Stockmartnet Holdings (BVI) Limited, held approximately 0.34% of the Company's total issued share capital.

Pursuant to the agreement dated 7th January, 2002 entered into between the Company and the Sponsor, the Sponsor will continue to receive a fee for acting as the Company's retained sponsor for the period from 11th January, 2002 to 31st December, 2004.

AUDIT COMMITTEE

The Company established an audit committee on 17th December, 2001 with written terms of reference in compliance with Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises four members, being Mr. Chung Shui Ming, Timpson, Mr. Tsui Yiu Wa, Alec and Mr. Cheng Mo Chi, independent non-executive Directors, and Mr. Lee Yiu Sun, a Vice Chairman and a non-executive Director. The Group's unaudited consolidated results for the three months and nine months ended 30th September, 2002 have been reviewed by the audit committee.

PURCHASE, SALE AND REDEMPTION OF SHARES

The Company did not redeem any of its shares during the nine months ended 30th September, 2002. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the nine months ended 30th September, 2002.

By order of the Board
Seto John Gin Chung
Chairman

Hong Kong, 7th November, 2002