



金融社控股有限公司 STOCKMARTNET HOLDINGS LTD.

(前稱為證券業合作社控股有限公司)
(formerly known as STOCKMARTNET HOLDINGS LIMITED)
(incorporated in the Cayman Islands with limited liability)



First Quarterly Report **2003**

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 Stockmarknet Holdings Ltd. (the "Company") 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\$955,000 for the three months ended 31st March, 2003.

Net loss attributable to shareholders for the three months ended 31st March, 2003 amounted to approximately HK\$4,546,000.

Loss per share was 0.59 HK cents.

The Directors do not recommend the payment of dividend for the three months ended 31st March, 2003.

FIRST QUARTERLY RESULT (UNAUDITED)

The board of Directors (the "Board") announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31st March, 2003 together with the comparative figures for the corresponding period in 2002.

CONSOLIDATED INCOME STATEMENT FOR THE THREE MONTHS ENDED 31ST MARCH, 2003

	Notes	Three months ended 31st March,	
		2003 HK\$'000	2002 HK\$'000
Turnover	3	955	414
Other operating income		133	227
Operating expenses		(5,634)	(5,540)
Loss before taxation		(4,546)	(4,899)
Taxation	4	-	-
Net loss after taxation		<u>(4,546)</u>	<u>(4,899)</u>
Loss per share			
- basic and diluted	5	<u>(0.59 cents)</u>	<u>(0.67 cents)</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 provision of a trading platform and brokerage and securities margin financing business.

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31st March, 2003 conform with accounting principles generally accepted in Hong Kong and Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

During the period, the Group adopted Statement of Standard Accounting Practice 12 (Revised) "Income Taxes" which has no effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustments has been made.

The consolidated income statement has been prepared under the historical cost convention.

The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31st March, 2003 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2002.

3. TURNOVER

	Three months ended 31st March,	
	2003 HK\$'000	2002 HK\$'000
Income from trading platform	94	414
Commission income	801	-
Interest income from clients	60	-
	<u>955</u>	<u>414</u>

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

4. 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 utilized in the foreseeable future.

5. LOSS PER SHARE – BASIC AND DILUTED

The calculation of the basic loss per share for the three months ended 31st March, 2003 is based on the net loss of the Group for the three months ended 31st March, 2003 of approximately HK\$4,546,000 (2002: loss of approximately HK\$4,899,000) and on the weighted average number of 764,886,000 (2002: 732,974,000) shares in issue during the period.

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.

6. STATEMENT OF CHANGE IN EQUITY

	Share Capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2002	5,080	291	4,779	(16,480)	(6,330)
Issue of shares at premium on listing	2,531	93,639	-	-	96,170
Share issue expenses	-	(13,392)	-	-	(13,392)
Net loss for the period	-	-	-	(4,899)	(4,899)
At 31st March, 2002	<u>7,611</u>	<u>80,538</u>	<u>4,779</u>	<u>(21,379)</u>	<u>71,549</u>
At 1st January, 2003	7,649	80,974	4,779	(39,127)	54,275
Net loss for the period	-	-	-	(4,546)	(4,546)
At 31st March, 2003	<u>7,649</u>	<u>80,974</u>	<u>4,779</u>	<u>(43,673)</u>	<u>49,729</u>

7. DIVIDEND

The Directors do not recommend the payment of any dividend by the Company for the three months ended 31st March, 2003 (three months ended 31st March, 2002: nil).

BUSINESS REVIEW AND OUTLOOK**Market Overview**

The local stock market continues to suffer from persistently difficult global economic conditions. Speculation is still rife as to what will happen in the aftermath of the War on Iraq. Whether economic recovery will take place upon the conclusion of the war and lead to the improvement of global financial markets remains unclear. While this geopolitical risk has, in and of itself, led to uncertainty resulting in low turnover on the local stock market, the sudden onset of the atypical pneumonia epidemic and the ensuing panic by local residents have exacerbated the already bearish sentiment of investors, in particular small and retail investors. The resultant adversities have created in aggregate a gloomy environment that has severely impeded consumer spending and investing. Against this backdrop, the Hong Kong government has recently indicated that its previous economic forecast for GDP growth this year is not expected to be met.

We believe it will take some time before local investors regain the confidence necessary to boost the level of retail investment activity towards its historical mean. In light of the current unfavourable operating environment, we believe that the promotion and marketing of the Group's products and services will continue to be challenging in the foreseeable future.

Services Development

Securities Trading Platform

We have replaced our old electronic platform provider with a new one as of January this year. The implementation of the new ASP platform has not only resulted in a significant reduction in the Group's financial commitment while continuing to offer the same level of service but has further provided more capability in terms of allowing multi-access trading via devices like PDA, mobile phones and other wireless media. Despite these positive development, the level of services subscription on the platform continues to reflect persistently challenging market conditions.

Financial Portal

Our website has been revamped with a new look and feel and will continue to be improved to increase user friendliness. The Group is currently exploring the commercial viability of working with an overseas research institution to provide on-line research materials covering local and overseas listed companies to broker members.

Back-Office System

The back-office system functionality of our new electronic platform provides a robust "straight through processing" facility for the clearing and settlement of the transactions of the customers of our broker members with effective risk management measures. The back-office system is also capable of being deployed to provide a "service bureau" type of business service for and on behalf of a broking firm in a comprehensive and cost-effective manner.

Margin Financing

Due to sluggish market turnover and keen competition from other financial institutions, the growth of the margin financing business has been lackluster.

Underwriting and Placement

Because of continuing bearish market sentiment, there were few IPOs this year and a general lack of interest in subscribing new issues. Until the stock market turns around and daily turnover increases, underwriting and placement is expected to remain slow.

Business Initiatives

We have successfully launched a live showcase for our innovative "total infrastructure suite" of services whereby a broker will be able to subscribe for our "one stop shop" of trading, clearing and settlement services on a cost effective basis.

The showcase has been instrumental in inducing several broking firms to sign up for the services and a number of other brokers are also giving serious consideration to doing so. The Group's showcase initiative permits a broking firm to outsource entirely its trading and settlement infrastructure so it can focus on maximizing the expertise of its sales force in marketing not only its traditional services but also the more diversified range of products and services that we can provide.

Before the end of 2002, we purchased CU Futures Limited to complement the products and services offered to our broker members. This will enable us to offer trading in Hong Kong futures products. In addition, we plan to establish the means to offer trading in US futures products. We believe these alternative products will be desirable given current negative market conditions. Development of an electronic trading and settlement facility in both the local and U.S. futures markets for the retail based brokers are in process. We are currently smoothing out system facilities, refining compliance requirements and logistics and finalizing commercial terms and conditions. We are planning to launch such services before the middle of this year.

Outlook

It is still not certain as to what effect an anticipated post-Iraq War economic recovery will have on global financial markets. It is even less certain as to how serious the impact of the atypical pneumonia epidemic will have on the local economy and hence the local stock market. However, the Group will continue to promote its above-mentioned initiatives despite

the difficult market environment and will seek to leverage its growing customer base to diversify into complementary products and services which have the potential to generate a steady stream of revenue for the Group in the long run.

Financial Review

The turnover of the Group for the three months ended 31st March, 2003 increased by approximately 131% to approximately HK\$955,000 as compared to the Group's turnover of approximately HK\$414,000 for the three months ended 31st March, 2002. Loss attributable to shareholders was reduced to approximately HK\$4,546,000 from approximately HK\$4,899,000 during the corresponding period in 2002. The reduction in loss attributable to shareholders was mainly due to the increase in turnover and the increase in turnover was mainly due to the Group having launched the showcase for its "total infrastructure suite" of services comprising trading, clearing and settlement services since December 2002.

Liquidity and Financial Resources

As at 31st March, 2003, the Group had no bank borrowings and had cash balance of approximately HK\$34 million to cater for its future development. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operation and development requirements.

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.

Capital Structure

Apart from the allotment and issue of 3,792,000 new shares at HK\$0.125 per share to First Sign Securities Limited on 26th November, 2002 as part of the consideration for the acquisition of a trading right in the 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 Investment

For the three months ended 31st March, 2003, the Group had made no significant investments.

Employees

As at 31st March, 2003, the Group's headcount amounted to 28 employees. The total staff costs amounted to approximately HK\$3,170,000 for the three months ended 31st March, 2003. The management believes that the quality of the Group's employees is one of the most important factors in sustaining its growth and operations. Employees are remunerated in accordance to their performance and working experience.

DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2003, the interests of the Directors and the chief executive of the Company 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"), or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by Directors as referred to in Rule 5.40 of the GEM Listing Rules, were as follows:

Name of Director	Number of shares beneficially held			Percentage Shareholding
	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	7,293,000 (Note 1)	0.96%
Chan Henry	4,719,000	2,574,000	7,293,000 (Note 2)	0.96%
Chan Kai Yu, Martin	4,719,000	2,574,000	7,293,000 (Note 3)	0.96%
Chan Hung Ti	4,719,000	2,574,000	7,293,000 (Note 4)	0.96%
Cheng Chi Lam	7,293,000	-	7,293,000	0.96%
Cheung Wah Fung, Christopher	4,719,000	2,574,000	7,293,000 (Note 5)	0.96%
Espina Anthony	5,061,000	2,574,000	7,635,000 (Note 6)	1.00%
Lee Jor Hung	4,719,000	2,574,000	7,293,000 (Note 7)	0.96%
Lee Sheung Yam	4,719,000	-	4,719,000	0.62%
Wong Wai Sum	4,719,000	2,574,000	7,293,000 (Note 8)	0.96%
Lee Wai Hung, Alan	1,980,000	-	1,980,000	0.26%

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. Cheung Wah Fung, Christopher was deemed to be interested in 2,574,000 shares through his controlling interest in Christfund 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.
- 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 the chief executive of the Company, nor any of their respective associates, had any interests in any equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SHARE OPTIONS

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 benefit in respect of their services and/or goods provided to the Group.

Details of movements in the Pre-IPO Share Option Plan granted to certain Executive Directors were as follows:

Name of Director	Date of grant	Number of options			Exercise period	Exercise price per share (approximately) HK\$
		Outstanding as at 1st January, 2003	Lapsed during the period	Outstanding as at 31st March, 2003		
Lee Wai Hung, Alan	17/12/2001	10,296,000	-	10,296,000	11/01/2004 - 16/12/2010	0.019
So Kin Wing	17/12/2001	5,148,000	-	5,148,000	11/01/2004 - 16/12/2010	0.019
Yuen Yeung Ngam (note)	17/12/2001	5,148,000	(5,148,000)	-	11/01/2004 - 16/12/2010	0.019
		<u>20,592,000</u>	<u>(5,148,000)</u>	<u>15,444,000</u>		

Note: Mr. Yuen Yeung Ngam resigned as an Executive Director with effect from 30th November, 2002 and the options granted to Mr. Yuen lapsed on 28th February, 2003 which was three months after his resignation.

No options were granted under the Share Option Scheme during the period.

DIRECTORS' RIGHTS TO PURCHASE SHARES OR DEBT SECURITIES

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

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that no persons had an interest of 10% or more in the equity securities of the Company.

Subsequent to the aforementioned date, the Company has become aware that First Sign International Holdings Limited, through two indirect wholly-owned subsidiaries, First Sign Capital Limited and First Sign Securities Limited, is interested in an aggregate of approximately 7.7% in the equity securities of the Company, which has become reportable on 1st April, 2003 on the commencement of the Securities and Futures Ordinance.

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 competing with the Group in this aspect of its business.

Name of company	Name of Director with controlling interest
Lee Tat & Company	Cheng Chi Lam
Luen Fat Securities Company Limited	Yue Wai Keung
Sanfull Securities Limited	Chan Henry
Wellfull Securities Company Limited	Chan Kai Yu, Martin
Troopers Securities Limited	Chan Hung Ti
Christfund Securities Limited	Cheung Wah Fung, Christopher
Goldride Securities Limited	Espina Anthony
DL Brokerage Limited	Lee Jor Hung
Hing Wong Securities Limited	Wong Wai Sum

SPONSOR'S INTERESTS

As updated and notified by UOB Asia (Hong Kong) Limited (the "Sponsor") and save as disclosed below, neither the Sponsor nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any material interests in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31st March, 2003.

Pursuant to the deed of novation dated 2nd December, 2002 as set out in the Company's announcement of the same date, the Sponsor has assumed the continuing sponsor role and will continue to act as the continuing sponsor to the Company for a term ending on 31st December, 2004. As a result, the Sponsor will continue to receive a fee for the provision of such services.

CORPORATE GOVERNANCE

The Company has complied from its date of listing on GEM to 31st March, 2003 with Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

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 of the Company and a non-executive Director.

The audit committee has reviewed the quarterly report of the Company for the three months ended 31st March, 2003 and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure has been made in respect thereof. It has also reviewed the financial reporting process and the adequacy and effectiveness of the internal control system of the Group.

PURCHASE, SALE AND REDEMPTION OF SHARES

The Company did not redeem any of its shares during the period. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's shares during the period.

By order of the Board
Lee Wai Hung, Alan
Chief Executive Officer

Hong Kong, 2nd May, 2003