



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

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

First Quarterly Report **2004**

## **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 GEM of the Stock Exchange (the “GEM Listing Rules”), the Securities and Futures Commission (the “SFC”) regulates Stockmartnet Holdings Ltd. (the “Company”) in relation to the listing of its shares on 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 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\$2,201,000 for the three months ended 31st March, 2004.

Net loss attributable to shareholders for the three months ended 31st March, 2004 amounted to approximately HK\$2,488,000.

Loss per share was approximately 0.33 HK cents.

The Directors do not recommend the payment of a dividend for the three months ended 31st March, 2004.

**FIRST QUARTERLY RESULTS (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, 2004 together with the comparative unaudited figures for the corresponding period in 2003.

**CONSOLIDATED INCOME STATEMENT**

	Notes	For the three months ended 31st March,	
		2004 HK\$'000	2003 HK\$'000
Turnover	3	2,201	955
Other operating income		32	133
		<u>2,233</u>	<u>1,088</u>
Amortisation of intangible assets		(202)	(86)
Impairment of goodwill		-	(192)
Depreciation of property and equipment		(167)	(227)
Staff costs, including directors' remuneration		(1,733)	(3,170)
Other operating expenses		<u>(2,619)</u>	<u>(1,959)</u>
Loss before taxation		(2,488)	(4,546)
Income tax	4	-	-
Net loss for the period		<u>(2,488)</u>	<u>(4,546)</u>
Loss per share			
- basic and diluted	5	<u>(0.33) cents</u>	<u>(0.59) cents</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE THREE MONTHS ENDED 31ST MARCH, 2004

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1st January, 2003	7,649	80,974	4,779	(39,127)	54,275
Net loss for the year	-	-	-	(16,963)	(16,963)
As at 31st December, 2003 and 1st January, 2004	7,649	80,974	4,779	(56,090)	37,312
Net loss for the period	-	-	-	(2,488)	(2,488)
As at 31st March, 2004	<u>7,649</u>	<u>80,974</u>	<u>4,779</u>	<u>(58,578)</u>	<u>34,824</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 consolidated financial statements of the Group for the three months ended 31st March, 2004 (the "Consolidated Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules and with applicable Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

The Consolidated Financial Statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in 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 trading platform, as well as commission income, interest income and service fees arising from brokerage and securities margin financing business, and infrastructure broking services and is analysed as follows:

	<b>Three months ended</b>	
	<b>31st March,</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income from trading platform	37	94
Commission income/Infrastructure broking service fees	2,089	801
Interest income from clients	75	60
	<u>2,201</u>	<u>955</u>

All of the activities of the Group are based in Hong Kong and all of the Group's turnover and loss before income tax were derived from Hong Kong. Accordingly, no analysis by geographical segments is presented.

**4. INCOME TAX**

No provision for Hong Kong Profits Tax has been made as the Group incurred a tax loss for the period (31st March, 2003: Nil).

No deferred tax liabilities are recognised as the Group did not have material temporary difference arising between the tax bases of liabilities and their carrying amounts as at 31st March, 2004 (31st March, 2003: Nil).

A deferred tax asset has not been recognised 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 (31st March, 2003: Nil).

**5. LOSS PER SHARE – BASIC AND DILUTED**

The calculation of the basic loss per share for the three months ended 31st March, 2004 is based on the net loss of the Group of approximately HK\$2,488,000 (2003: loss of approximately HK\$4,546,000) and 764,886,000 ordinary shares (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 period because their exercise would reduce loss per share.

**6. SHARE CAPITAL**

	<b>Number of shares</b>	
	<i>'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
<i>Authorised:</i>		
As at 31st December, 2003 and 31st March, 2004	<u>10,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
As at 31st December, 2003 and 31st March, 2004	<u>764,886</u>	<u>7,649</u>

**7. DIVIDEND**

The Directors do not recommend the payment of a dividend for the three months ended 31st March, 2004. (2003: Nil)

**BUSINESS REVIEW**

The continuous favorable economic performance in China helped boost the overall local economy in the first quarter of 2004. The Group benefited from the increase in trading volume in the local equity market. The total fees and commission earned from the brokerage and securities margin financing and infrastructure brokering services increased from the same period in year 2003.

To vitalize more effective communications with fellow broker members, the Group has initiated a comprehensive survey to ensure valuable inputs from members in terms of their choices of services and products. One key business initiative of the Group is to create mutually beneficial co-branding opportunities with financial entities with the aim to increase potential transaction opportunities for our members. To this end, the Group jointly organized a seminar with a financial institution on Equity Linked products (ELN and ELI) which was very well received. In addition, the Group co-sponsored a seminar with another financial institution to promote to Hong Kong investors a number of enterprises in China, some of which are considering plans for Initial Public Offering under either the GEM or the Main Board of the Stock Exchange in Hong Kong in the foreseeable future.

**OTHER SERVICES DEVELOPMENT***Hong Kong Futures*

The trading system was successfully interfaced with the upgraded OAPI-CL trading system in the Hong Kong Futures Exchange, which was launched together with the Derivative Clearing and Settlement System on 6th April, 2004.

*Global Electronic Futures*

Futures products of the world's major exchanges continues to be one of the focused businesses that the Group promotes. The electronic platform has undergone an upgrade towards the end of the first quarter by our software vendor. Together with the other online trading futures offered by the Group, the Osaka Nikkei Index is now available for online trading.

**OUTLOOK**

In the near term, the Group will explore the expansion of market networks through strategic alliances with other financial institutions, develop more products and transaction opportunities for broker members and explore alternatives to increase the capital base required for the future expansion of the Group's businesses and the diversification of its revenue sources.

As disclosed in the announcements dated 23rd February, 2004, 3rd March, 2004, 2nd April, 2004 and 30th April, 2004, the Company is engaged in discussions concerning a potential investment by an investor who intends to acquire a controlling stake in the Company for cash followed by a possible general offer for the remaining shares of the Company (the "Proposal"). The Proposal may or may not proceed.

**Financial Review**

The turnover of the Group was approximately HK\$2,201,000 for the three months ended 31st March, 2004 (2003: approximately HK\$955,000). This represented an increase of 130% from the previous period due to the improved market sentiment and economic recovery. Apart from the increase in turnover, the Group also implemented control measures on staff cost. Accordingly, the loss attributable to shareholders for the three months ended 31st March, 2004 decreased to approximately HK\$2,488,000 from approximately HK\$4,546,000 during the corresponding period in 2003.

### Liquidity and Financial Resources

As at 31st March, 2004, the Group had total assets of approximately HK\$45,924,000, including bank balances and cash of approximately HK\$33,281,000. The Group did not have any bank borrowing or loan during the period under review. As at 31st March, 2004, the Group's gearing ratio, defined as the Group's total borrowings divided by shareholders' funds, was nil. The Group financed its operations entirely with its own internal funding. With net current assets of approximately HK\$30,892,000, the Group remained in a financially liquid position as at 31st March, 2004. The Directors believe that the Group has a healthy financial position and has sufficient resources to meet its working capital requirement. 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 March, 2004, the Group had rationalized its workforce to 19 employees (2003: 28). For the three months ended 31st March, 2004, the total staff costs amounted to approximately HK\$1,733,000 (2003: approximately HK\$3,170,000). The Group's remuneration policies are determined on the basis of the performance and experience of individual employees.

### Capital structure

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

### Significant investments

For the three months ended 31st March, 2004, the Group had made no significant investments.

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

As at 31st March, 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 Stock Exchange pursuant to the minimum standard of dealings by Directors as referred to in Rule 5.40 of the GEM Listing Rules, were as follows:

#### Long positions in shares of the Company

Name of Director	Number of shares beneficially held		Total	Approximate percentage shareholdings
	Personal	Corporate		
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	5,061,000	2,574,000 (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	4,119,000 (Note 8)	2,574,000 (Note 9)	6,693,000	0.88%

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 2,574,000 shares through his controlling interest in Goldride Securities Limited.
7. Mr. Lee Jor Hung was deemed to be interested in 2,574,000 shares through his controlling interest in DL Brokerage Limited.
8. During the period under review, 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.
9. 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 persons were as follows:

Name of grantee	Date of grant	Number of options		Outstanding as at 31st March, 2004	Exercise period	Exercise price per share (approximately) HK\$
		Outstanding as at 1st January, 2004	Lapsed during the period			
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 three months ended 31st March, 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 three months ended 31st March, 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 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 Stock Exchange pursuant to Rule 5.40 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 Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

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

No short positions of the Directors including the chief executive of the Company in the underlying shares of the equity derivatives of the Company or its associated corporations were recorded in the register, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Save as disclosed above, as at 31st March, 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 (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standard of dealings by Directors as referred to in Rule 5.40 of the GEM Listing Rules.

During the three months ended 31st March, 2004, there was no debt securities issued by the Group at any time.

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

As at 31st March, 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 (Notes 2, 3 and 4)	Interest of a controlled corporation	Corporate	58,926,000	7.70%

*Notes:*

- Mr. Lau Tung Hoi was deemed to be interested in 58,926,000 shares as he was the founder of the LCY Trust.
- HSBC International Trustee Limited, as trustee of the LCY Trust, was deemed to be interested in 58,926,000 shares through its indirect controlling interest of 66.67% in Linwood Services Ltd.
- Linwood Services Ltd. was deemed to be interested in 58,926,000 shares through its controlling interest of 66.98% in First Sign International Holdings Limited.
- The 58,926,000 shares held by each of Mr. Lau Tung Hoi, HSBC International Trustee Limited, Linwood Services Ltd. and First Sign International Holdings Limited refer to the same parcel of shares.

**Long positions in underlying shares of the Company**

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

**Short positions in shares of the Company**

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



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

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

Save as disclosed above, as at 31st March, 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 three months ended 31st March, 2004, there was no debt securities issued by 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.

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

**SPONSOR'S INTERESTS**

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

**CORPORATE GOVERNANCE**

The Company had complied with Rules 5.28 to 5.39 of the GEM Listing Rules throughout the financial period.

**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 period, the audit committee met one time. The audit committee has reviewed the financial statements of the Group for the period ended 31st March, 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 period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

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

Hong Kong, 7th May, 2004