

**DIGITALHONGKONG.COM**

**First Quarter Report  
2000/2001**

## ABOUT DIGITALHONGKONG.COM

DIGITALHONGKONG.COM (the "Company" or "Digital HK") is a commerce service provider (CSP) engaged in providing outsourcing services for an integrated e-commerce solution designed to enable any company to extend its business to the Internet. The focus of the Company's e-services is the development and provision of an open, secure and robust electronic payment processing platform which is targeted at interfacing with multiple payment systems and handling various payment methods for both B2B and B2C applications.

The Company was listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17 April 2000. Prior to its listing, it was a wholly-owned subsidiary of Champion Technology Holdings Limited ("Champion Technology"), a communication software development group which is listed on the Main Board of the Stock Exchange.

### **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 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.



DIGITALHONGKONG.COM

(incorporated in the Cayman Islands with limited liability)

## QUARTERLY REPORT

For the quarter ended 30 September 2000

### HIGHLIGHTS

(Three months ended 30 September 2000)

- Total turnover of HK\$450,000
- Loss for the 1st quarter HK\$1,704,000
- Operating costs were well-managed
- Phone-based payment solution being developed for m-commerce

### RESULTS

The board of directors (the “Board”) of DIGITALHONGKONG.COM (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30 September 2000 together with the comparative unaudited figures for the corresponding period in 1999 as follows:

		Three months ended	
		30 September	
		2000	1999
	Notes	HK\$'000	HK\$'000
Turnover			
Service income		450	—
Other revenue		220	—
Operating costs			
Acquired technology written off		(117)	—
Staff costs		(1,138)	(828)
Administrative expenses		(750)	(750)
Others		(369)	(26)
Loss from operations		(1,704)	(1,604)
Taxation	(2)	—	—
Loss for the period		<u>(1,704)</u>	<u>(1,604)</u>
Loss per share – basic	(3)	<u>1.14 cents</u>	<u>1.29 cents</u>

Notes:

**1. Group reorganisation and basis of preparation**

The Company was incorporated as an exempted company in the Cayman Islands on 27 January 2000.

Pursuant to a group reorganisation in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group on 27 March 2000. The shares of the Company commenced trading upon listing on GEM on 17 April 2000.

The results of the Group comprise the results of the Company and its subsidiaries using the merger accounting basis as if the Company had always been the holding company of the Group.

**2. Taxation**

No provision for Hong Kong Profits Tax has been made as the Group incurred tax losses for the periods.

**3. Loss per share**

The calculation of loss per share for the period ended 30 September 2000 is based on the net loss of HK\$1,704,000 (1999: HK\$1,604,000) and on 150,000,000 shares (1999: 124,800,000 shares on the assumption that the 124,800,000 shares issued to Champion Technology Holdings Limited had been in issue throughout the period) in issue throughout the period.

## **DIVIDEND**

The Board does not recommend the payment of an interim dividend for the quarter ended 30 September 2000 (1999: NIL).

## **BUSINESS REVIEW**

For the three months ended 30 September 2000, the Group recorded a turnover of HK\$450,000 and net loss of HK\$1,704,000. The Group incurred HK\$2,374,000 operating costs during the period under review, which comprised mainly staff costs, general and administrative expenses, and development costs related to continued testing and enhancement of payment platform. Expenditure on marketing and promotion has been scaled back in order to conserve cashflow in light of current market conditions.

To capture the potential of the increasingly popular mode of mobile commerce with consumers, the Group is developing a payment solution for B2C application which integrates e-payments via mobile phones with its existing online payment platform.

## **PROSPECTS**

At this early stage of e-commerce development, whilst some financial institutions have adopted a proactive approach to e-banking, many others are still cautious. Smaller enterprises, in particular, have found it difficult to obtain online merchant status. As far as merchants are concerned, it is highly desirable to outsource non-mainstream e-activities in order that they can focus on managing their core competencies. As a CSP (Commerce Service Provider), or more appropriate, PSP (Payment Service Provider), Digital HK acts as a go-between for merchants and the financial acquirers, providing full-blown online processing systems with integrated connections to banks which authorise payments and transfer the monies automatically.

As e-commerce is rapidly developing into a global mega-trend, Digital HK is well positioned to capture such business opportunity. In particular, as the architecture and infrastructure on which Internet commerce is based is becoming more complex and expensive for both big and small organisations, the demand for outsourcing services is expected to stay strong in the years ahead.

**DIRECTORS' INTEREST**

As at 30 September 2000, the interests of the directors and their associates in the securities of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

<b>Name of director</b>	<b>Number of shares</b>
<i>Securities of the Company</i>	
Mr. Paul Kan Man Lok	<i>Note 1</i>
<i>Securities of Champion Technology Holdings Limited ("Champion")</i>	
Mr. Paul Kan Man Lok ( <i>Note 2</i> )	2,065,521,680
<i>Securities of Kantone Holdings Limited ("Kantone", a subsidiary of Champion)</i>	
Mr. Paul Kan Man Lok	<i>Note 3</i>

*Notes:*

- 117,300,000 shares were held by Champion Technology Holdings Limited ("Champion") and 2,669,171 shares were held by Lawnside International Limited ("Lawnside"). Lawnside is wholly owned by Lanchester Limited which is a company beneficially owned by a discretionary trust, the eligible discretionary objects of which include Mr. Paul Kan Man Lok and his family members and staff of Champion and its subsidiaries. As at 30 September 2000, Lawnside had interests in approximately 35.10% of the entire interest of Champion and was accordingly deemed to have an interest in these shares which were owned by Champion. These are classified as other interests under the GEM Listing Rules.
- These shares were held by Lawnside. These are classified as other interests under the GEM Listing Rules.
- 210,990,117 of these shares were held by the Champion of which 66,514,070 of these shares were held by Lawnside. These are classified as other interests under the GEM Listing Rules.

Save as disclosed above and other than certain nominee shares in subsidiaries held by directors in trust for the Company or its subsidiaries, none of the directors or any of their associates had any interest in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance as at 30 September 2000.

## **DIRECTORS' RIGHTS TO ACQUIRE SECURITIES**

The Company has a share option scheme which enables the directors of the Company to grant to directors and employees options to subscribe for shares in the Company.

No share option has been granted by the Company as at 30 September 2000.

Other than the share option scheme as described above, the Company is not a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company.

## **SUBSTANTIAL SHAREHOLDERS**

As at 30 September 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed above under directors' interests in securities, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital.

## **COMPETING INTEREST**

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes with the Company or may compete with the business of the Group.

## **SPONSOR'S INTERESTS**

None of the Company's sponsor, Dao Heng Securities Limited ("Dao Heng Securities"), its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30 September 2000.

Pursuant to the agreement dated 17 April 2000 entered into between the Company and Dao Heng Securities, Dao Heng Securities has been retained to act as the Company's sponsor for the period from 17 April 2000 to 30 June 2002 in return for a monthly advisory fee.

## **AUDIT COMMITTEE**

The Group has established an audit committee on 27 March 2000 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee has two members comprising the two independent non-executive directors, Mr. Fan Sheung Tak and Mr. Francis Gilbert Knight.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the quarter ended 30 September 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board  
**Paul KAN Man Lok**  
*Chairman*

Hong Kong, 14 November 2000