

DIGITALHONGKONG.COM

**Interim 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)

Interim Report
For the six-month period ended 31 December 2000

HIGHLIGHTS

(Six months ended 31 December 2000)

- Total turnover of HK\$1,044,000
- Loss for the period HK\$3,973,000
- Operating costs were well-managed
- Phone-based payment solution being developed for m-commerce
- Providing technical consultation on a B2B exchange

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 and six months ended 31 December 2000 together with the comparative unaudited figures for the corresponding period in 1999 as follows:

	<i>Notes</i>	Six months ended		Three months ended	
		2000	1999	2000	1999
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover					
Service income		1,044	1,827	594	1,827
Other revenue		415	–	195	–
Operating costs					
Acquired technology written off		(930)	–	(813)	–
Staff costs		(2,326)	(1,912)	(1,188)	(1,084)
Administrative expenses		(1,500)	(1,500)	(750)	(750)
Others		(676)	(133)	(307)	(107)
Loss from operations		(3,973)	(1,718)	(2,269)	(114)
Taxation	(2)	–	–	–	–
Net loss for the period		<u>(3,973)</u>	<u>(1,718)</u>	<u>(2,269)</u>	<u>(114)</u>
Loss per share - basic	(3)	<u>2.65 cents</u>	1.38 cents	<u>1.51 cents</u>	0.09 cents

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 three months and six months ended 31 December 2000 is based on the respective unaudited net loss of HK\$2,269,000 and HK\$3,973,000 (1999: HK\$114,000 and HK\$1,718,000) 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 respective periods) in issue throughout the respective periods.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2000 (1999:NIL).

BUSINESS REVIEW

For the six months ended 31 December 2000, the Group recorded a turnover of HK\$1,044,000, compared to HK\$1,827,000 recorded in the previous corresponding period. Turnover comprised the provision of professional services and technical advice on integrating payment processing functionality, and was made up of upfront fees and annual service subscription fees. The reduction in turnover reflected the soft market sentiment towards Internet projects.

Loss for the period was HK\$3,973,000, compared to HK\$1,718,000 for the previous corresponding period. Operating costs were well managed, and expenditure on marketing and promotion has been scaled back in order to conserve cashflow in light of the current market conditions.

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

Comparison between Business Objectives with Actual Progress

For six-month period up to 31 December 2000

<i>Business objectives as stated in the prospectus dated 5 April 2000</i>	<i>Actual business progress</i>
<p>Payment Platform</p> <ul style="list-style-type: none"> • continued Web-based Payment System (WPS) development and testing • planning and design of Smart Card, Pre-Paid Card and Telephone-based Payment System • continued WPS merchant interface development and testing 	<p>Payment Platform</p> <ul style="list-style-type: none"> • testing results of WPS satisfactory • focused on phone-based payment testing, deferring introduction of Smart Card and Pre-Paid Card • new merchants continue to be added and testing of interface continued
<p>Marketing and Promotion</p> <ul style="list-style-type: none"> • on-going promotion and marketing campaign to recruit consumers, merchants, and financial acquirers 	<p>Marketing and Promotion</p> <ul style="list-style-type: none"> • mainly through direct sales and joint promotion with fellow subsidiary Y28.COM to economise on spending and maximise results
<p>Use of Proceeds</p> <ul style="list-style-type: none"> • it is presently estimated that approximately HK\$10 million of the net proceeds from the Placing will be allocated for the above scheduled events, of which approximately HK\$5 million is intended to be used for the development of payment platform, and HK\$5 million is intended to be used for marketing and promotion 	<p>Use of Proceeds</p> <ul style="list-style-type: none"> • HK\$1,185,000 has been deployed to further develop and enhance payment platform in order to accommodate mobile commerce • HK\$561,000 has been deployed on marketing and promotion • Balance has been placed on short-term deposits

PROSPECTS

The market conditions and operating environment for pure Internet plays continue to be challenging. The Group is therefore actively exploring opportunities to enhance its revenue-generating capability. In the case of the mobile commerce project, software programs to build in intelligence for one-to-one marketing and loyalty programs are being developed. Meanwhile the Group is working on a payment solution to facilitate transactions on a B2B exchange.

Despite the early stage in the development of e-commerce, especially in the region, we are encouraged by the high level of utilisation of the Internet and mobile devices as the medium of communication, which bodes well for commerce to be conducted online. The management will endeavour to create more value for the Group's offerings.

DIRECTORS' INTEREST

As at 31 December 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:

Name of director	Number of securities
<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 shares 413,104,336 units of warrants
<i>Securities of Kantone Holdings Limited (a subsidiary of Champion)</i>	
Mr. Paul Kan Man Lok	<i>Note 3</i>

Notes:

1. 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 31 December 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.
2. These shares and warrants were held by Lawnside. These are classified as other interests under the GEM Listing Rules. The warrants were issued by Champion pursuant to a bonus issue effected on 22 December, 2000, all of which will be expired on 22 December, 2001.
3. 210,990,117 of these shares were held by the Champion and 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 31 December 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 31 December 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 31 December 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 31 December 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 three members comprising the two independent non-executive directors, Mr. Fan Sheung Tak and Mr. Francis Gilbert Knight, and one executive director, Mr. John Wong Yuk Lung, who was appointed on 12 January 2001.

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

During the six months ended 31 December 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, 13 February 2001