

DIGITALHONGKONG.COM

**Third 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)

INTERIM REPORT
for the quarter ended 31 March 2001

HIGHLIGHTS

(Three months ended 31 March 2001)

- Total turnover of HK\$3,171,000
- Profit for the quarter HK\$122,000
- Careful monitoring of operating costs
- Smart card payment system under development and testing
- Enhancement of phone-based payment solution with authentication technology
- Providing technical consultation on B2B payment options

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 nine months ended 31 March 2001 together with the comparative unaudited figures for the corresponding period in 2000 as follows:

	Notes	Three months ended 31 March		Nine months ended 31 March	
		2001 HK\$'000	2000 HK\$'000 Note (4)	2001 HK\$'000	2000 HK\$'000 Note (4)
Turnover					
Service income		3,171	456	4,215	2,283
Other revenue		427	–	842	–
Operating costs					
Acquired technology written off		(586)	–	(1,516)	–
Staff costs		(1,160)	(687)	(3,486)	(2,599)
General and administrative expenses		(1,202)	(965)	(3,337)	(2,598)
Marketing and promotion expenses		(528)	(9)	(569)	(9)
Profit/(loss) from operations		122	(1,205)	(3,851)	(2,923)
Taxation	(2)	–	–	–	–
Net profit/(loss) for the period		122	(1,205)	(3,851)	(2,923)
Earnings/(loss) per share					
– basic	(3)	0.08 cents	(0.96 cents)	(2.57 cents)	(2.34 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 nine-month period ended 31 March 2001 and the corresponding period in 2000.

3. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share for the three months and nine months ended 31 March 2001 is based on the unaudited net profit of HK\$122,000 and unaudited net loss of HK\$3,851,000 respectively (three months and nine months ended 31 March 2000: loss of HK\$1,205,000 and HK\$2,923,000 respectively) and on 150,000,000 shares (2000: 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.

4. Comparative figures

Comparative figures for marketing and promotion expenses and certain other expenses have been reclassified to conform with the current period's presentation.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the quarter ended 31 March 2001 (2000: NIL).

BUSINESS REVIEW

For the third quarter ended 31 March 2001, the Group recorded a turnover of HK\$3,171,000, a growth of 6 times compared to HK\$456,000 recorded in the corresponding period in 2000, and a growth of 4 times over HK\$594,000 for the previous quarter. Operating profit for the period was HK\$122,000, compared to

an operating loss of HK\$1,205,000 for the corresponding quarter in the previous year. Earnings per share for the third quarter was HK0.08 cents.

The Group incurred HK\$3,476,000 operating costs during the period under review, which comprised mainly staff costs, general and administrative expenses, marketing and promotion expenses, and development costs related to continued testing and enhancement of payment platform, including enhanced online security options.

In light of the current market conditions and slowdown of the Internet economy, expenditure on marketing and promotion has been scaled back, while expenditure on product development has been and will continue to be driven by business needs and requirements. With increased revenue from consultation services, and careful monitoring of the operating costs, the Group was able to achieve an operating profit for the period for the first time.

During the period, the Group provided technical consultation for a B2B exchange, in particular, technical advice on integrating and interfacing with the Group's payment platform to enable smooth payment processing. New customers were added as the Group continued to enhance its payment infrastructure.

The integration of e-payment via mobile phones with the Group's existing online payment platform has proved satisfactory, and marketing and promotion of phone-based payment solution for m-commerce, initially targeted at micro-payments, is expected to progress towards commercial roll-out by mid year.

To strengthen the Group's product offerings and enhance the functionality of its open, secure and robust electronic payment processing platform, multiple options using mobile phones, palm devices and handheld computers are being explored and developed. Testing of Smart Card and Pre-paid Card as an alternative to credit card payment commenced during the period. These additional payment options are applicable to both e-commerce and m-commerce.

PROSPECTS

The market conditions and operating environment for Internet projects continue to be challenging. There is also the prospect that the slowdown of the US economy will further affect the global telecom and Internet sectors, which are expected to undergo major consolidation after a period of significant and rapid expansion. Nevertheless, we are encouraged by the global trend for increasing

utilization of the Internet and mobile devices as the medium of communication, which bodes well for commerce to be conducted online. China's impending entry into the WTO and the associated liberalization of trade is also expected to provide ample business opportunities for the Group.

The Group will continue to work closely with technology partners and solutions developers to promote its e-services with a focus on ease of use which have wide ranging applications and are capable of accommodating different levels of security commensurate with the size and nature of online transactions.

DIRECTORS' INTEREST IN SECURITIES

As at 31 March 2001, 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>	
Paul Kan Man Lok (<i>Note 1</i>)	119,969,171 shares
<i>Securities of Champion Technology Holdings Limited ("Champion")</i>	
Paul Kan Man Lok (<i>Note 2</i>)	2,081,169,571 shares 413,104,336 units of warrants
<i>Securities of Kantone Holdings Limited (a subsidiary of Champion)</i>	
Paul Kan Man Lok (<i>Note 3</i>)	277,504,187 shares

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 Paul Kan Man Lok and his family members and staff of Champion and its subsidiaries. Currently only Paul Kan Man Lok and his family members are discretionary objects of the trust. As at 31 March 2001, Lawnside had interests in approximately 35.22% 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 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 March 2001.

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 March 2001.

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 March 2001, 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 March 2001.

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 quarter ended 31 March 2001, 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, 11 May 2001