

Interim Report **2001/2002**

ABOUT DIGITALHONGKONG.COM (STOCK CODE 8007)

DIGITALHONGKONG.COM (“Digital HK”) (www.digitalhongkong.com) was listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong in April 2000. Started as a commerce service provider (CSP) that was engaged in the provision of electronic payment outsourcing services for online commerce, Digital HK has strategically repositioned itself to integrate both online and offline assets. Digital HK today focuses on e-commerce enabling solutions, information security products and services, systems development, and provision of IT consulting and contracting services.

Digital HK is a subsidiary of Champion Technology Holdings Limited (“Champion Technology”), a communications 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 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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however 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 collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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.



DIGITALHONGKONG.COM

(incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

For the six-month period ended 31 December 2001

HIGHLIGHTS

- Total turnover of HK\$6,694,000
- Profit for the period HK\$203,000
- New partnerships formed to pursue smart card and related opportunities

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

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

	NOTES	Six months ended 31 December		Three months ended 31 December	
		2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2000 HK\$'000 (Unaudited)
Turnover	(2)				
Service income		6,694	1,044	3,254	594
Other revenue		86	415	28	195
Operating costs					
Acquired technology written off		(1,403)	(930)	(702)	(813)
General and administrative expenses		(2,394)	(2,135)	(1,169)	(1,016)
Marketing and promotion expenses		(543)	(41)	(259)	(41)
Staff costs		(2,237)	(2,326)	(1,109)	(1,188)
Profit/(Loss) from operations		203	(3,973)	43	(2,269)
Taxation	(4)	-	-	-	-
Net profit/(loss) for the period		<u>203</u>	<u>(3,973)</u>	<u>43</u>	<u>(2,269)</u>
Earnings/(Loss) per share					
- basic	(5)	<u>0.14 cent</u>	<u>(2.65 cents)</u>	<u>0.03 cent</u>	<u>(1.51 cents)</u>

There are no recognised gains or losses other than the net profit/loss for the period.

CONDENSED CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2001

	<i>NOTES</i>	31 December 2001 HK\$'000 (Unaudited)	30 June 2001 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		214	310
Current assets			
Trade and other receivables	(7)	2,992	3,981
Deposits and prepayments		209	117
Amount due from a fellow subsidiary		2,785	2,604
Deposits, bank balances and cash		10,314	9,356
		16,300	16,058
Current liabilities			
Trade and other payables		643	700
Net current assets		15,657	15,358
Net assets		15,871	15,668
CAPITAL AND RESERVES			
Share capital	(8)	15,000	15,000
Reserves	(8)	871	668
Shareholders' funds		15,871	15,668

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

	Six months ended 31 December 2001 HK\$'000 (Unaudited)
NET CASH INFLOW FROM OPERATING ACTIVITIES	894
CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	
Interest received	86
CASH OUTFLOW FROM INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(22)
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INCREASE IN CASH AND CASH EQUIVALENTS	958
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	9,356
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CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by deposits, bank balances and cash	10,314
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2001

1. Basis of presentation

The condensed financial statements are prepared in accordance with the Statement of Standard Accounting Practice No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants. In this first year of implementation of the standard, as permitted by the Rules, no comparative figures for the corresponding period of the preceding year have been presented for the condensed consolidated cash flow statement.

2. Turnover

Turnover represents the amounts received and receivable for services rendered in establishing and providing secure electronic payment processing platform.

No analysis for business and geographical segments are presented for the period as substantially all the Group's turnover, contribution to results, segment assets and liabilities were derived from the business of development and operation of payment infrastructure that facilitates web-enabled transactions in Hong Kong.

3. Depreciation

During the six-month period, depreciation of HK\$118,000 (2000: HK\$77,000) is charged in respect of the Group's property, plant and equipment.

4. Taxation

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries either incurred tax losses for the periods or its assessable profit was wholly absorbed by the tax losses brought forward.

5. Earnings/(Loss) per share

The calculation of basic earnings per share for the three months and six months ended 31 December 2001 is based on the respective unaudited net profit of HK\$43,000 and HK\$203,000 (2000: unaudited net loss of HK\$2,269,000 and HK\$3,973,000) and on the weighted average of 150,000,000 shares in issue throughout the period.

6. Dividend

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

7. Trade and other receivables

The aging analysis of trade receivables at the reporting date is as follows:

	31 December 2001 HK\$'000	30 June 2001 HK\$'000
0-60 days	1,592	3,945
61-90 days	-	-
91-180 days	1,394	36
> 180 days	6	-
	<u>2,992</u>	<u>3,981</u>

The Group maintains a well-defined credit policy regarding its trade customers dependent on their credit worthiness, nature of services and products, industry practice and condition of the market with credit period ranging from 30 to 180 days.

8. Share capital and Reserves

There was neither movement in the authorised, issued and fully paid share capital of the Company nor movement in reserves of the Group except for the profit attributable to the shareholders in the current interim period.

9. Comparative figures

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

BUSINESS REVIEW

For the six months ended 31 December 2001, the Group recorded a turnover of HK\$6,694,000 and net profit of HK\$203,000. Earnings per share for the first half-year period was HK0.14 cent. The period's turnover represented an increase of over five times compared to HK\$1,044,000 recorded in the corresponding period of previous year. A net loss of HK\$3,973,000 was recorded in the last corresponding period.

During the period, Digital HK has forged new partnerships with technology companies targeted at integrating smart card technology into its existing payment platform. Digital HK also works closely with its partners aiming at providing integrated document management system, workflow, and PKI (Public Key Infrastructure) security applications. The major building blocks for providing end-to-end solution for secure e-commerce were being put in place.

As a result of the smart card and Internet security alliances recently formed, the Group was capable of designing and developing total solutions for different customer applications, including integrated student attendance record and loyalty programme; user friendly secure online shopping; hotel guest check-in and integrated billing and CRM programme; and subscription-fee based e-book project.

LIQUIDITY AND FINANCIAL RESOURCES

Deposits, bank balances and cash amounted to HK\$10,314,000 as at 31 December 2001. The current ratio was 25. The Group's total liabilities amounted to HK\$643,000. Barring unforeseen circumstances, and based on the profitability of the last four quarters as well as the current level of business activities, management is confident that the Company is generating sufficient funds to meet its daily business operation requirements as well as to finance new product development.

PROSPECTS

The market conditions and operating environment for pure Internet and e-commerce plays continue to be challenging in the wake of the global economic downturn and further deterioration in consumer confidence after the recent events in the US.

To expand its income base, the Group is actively exploring other prospective technology-based activities and pursuing partnerships to expand its product offerings. The results are encouraging, and the Group is looking forward to expanding its services and web-based applications into China.

Comparison between Business Objectives with Actual Progress For six-month period up to 31 December 2001

<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"> • live with Smart Card, Pre-Paid Card and Telephone-based Payment System • electronic billing, system planning and design, development and testing 	<p>Payment Platform</p> <ul style="list-style-type: none"> • team up with smart card technology partners, payment using smart card under development; continued testing of Phone-based payment systems • continued testing and development using existing infrastructure; expansion for high volume transactions deferred until market conditions improve

<i>Business objectives as stated in the prospectus dated 5 April 2000</i>	<i>Actual business progress</i>
<p>Marketing and Promotion</p> <ul style="list-style-type: none"> on-going promotion of Digital HK's brandname and services 	<p>Marketing and Promotion</p> <ul style="list-style-type: none"> promotion mainly through direct sales, exhibition of products/solutions at Expo, and presence at public conferences and networking occasions the Group's m-vending project Phone-a-Drink, on display at the five-day Innovation Expo held in November 2001 at the Hong Kong Convention and Exhibition Centre, was selected by BBC as one of the most innovative products among all exhibits
<p>Use of Proceeds</p> <ul style="list-style-type: none"> an estimate of approximately HK\$20 million to be raised for the above events for the corresponding period <p><i>This amount was forecast to be raised from capital markets or new equity issue for expansion subject to the GEM Listing Rules</i></p>	<p>Use of Proceeds</p> <ul style="list-style-type: none"> no funds were required to be raised in the previous six-month period 1 January 2001 – 30 June 2001 in view of market conditions (original plan was to raise approximately HK\$25 million for expansion) we have in general scaled back the development of our payment platform and pure Internet activities in light of current market conditions. Focus is more on applications development and partnership acquisitions to enhance our product offerings. As a result of the slowdown, the plan to raise HK\$20 million targeted for expansion was deferred

DIRECTORS' INTEREST IN SECURITIES

At 31 December 2001, the interests of the directors 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	5,218,064,060 shares <i>Note 2</i>
<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 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. Currently only Mr. Paul Kan Man Lok and his family members are discretionary objects of the trust. As at 31 December 2001, Lawnside had interests in approximately 36.71% of the entire interest of Champion and was accordingly deemed to have an interest in these shares which were owned by Champion. These securities 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").
- These shares were held by Lawnside. These securities are classified as other interests under the GEM Listing Rules.
- 1,265,940,702 shares were held by Champion and 399,084,420 shares were held by Lawnside. These securities are classified as other interests under the GEM Listing Rules.

Save as disclosed above, none of the directors 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 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 December 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 December 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 substantial 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 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. Francis Gilbert Knight and Mr. Ho Yiu Ming, and one executive director, Mr. John Wong Yuk Lung.

COMPLIANCE WITH RULE 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the period under review.

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

During the six months ended 31 December 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, 7 February 2002