

Third Quarter 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.



DIGITALHONGKONG.COM

(incorporated in the Cayman Islands with limited liability)

QUARTERLY REPORT

For the nine months ended 31 March 2002

HIGHLIGHT

- Total turnover of HK\$9,952,000
- Profit for the period HK\$233,000
- Actively seeking new partnerships to expand income base

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 nine months and three months ended 31 March 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

	Notes	Nine months ended 31 March		Three months ended 31 March	
		2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2001 HK\$'000 (Unaudited)
Turnover					
Service income		9,952	4,215	3,258	3,171
Other revenue		103	842	17	427
Operating costs					
Acquired technology written off		(2,105)	(1,516)	(702)	(586)
General and administrative expenses		(3,587)	(3,337)	(1,193)	(1,202)
Marketing and promotion expenses		(872)	(569)	(329)	(528)
Staff costs		(3,258)	(3,486)	(1,021)	(1,160)
Profit/(Loss) from operations		233	(3,851)	30	122
Taxation	(1)	-	-	-	-
Net profit/(loss) for the period		233	(3,851)	30	122
Earnings/(Loss) per share – basic	(2)	0.16 cent	(2.57 cents)	0.02 cent	0.08 cent

Notes:

1. 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.

2. Earnings/(Loss) per share

The calculation of basic earnings per share for the nine months and three months ended 31 March 2002 is based on the respective unaudited net profit of HK\$233,000 and HK\$30,000 (2001: unaudited net loss of HK\$3,851,000 and unaudited net profit of HK\$122,000) and on the weighted average of 150,000,000 shares in issue throughout the period.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the quarter ended 31 March 2002 (2001: NIL).

BUSINESS REVIEW

For the nine months ended 31 March 2002, the Group recorded a turnover of HK\$9,952,000, representing more than two times the amount of turnover recorded in the previous corresponding period. Net profit was HK\$233,000, compared to a net loss of HK\$3,851,000 in the last corresponding period. Earnings per share for the nine-month period was HK0.16 cent.

The results reflected steady demand for the Group's services in relation to electronic payment integration and e-commerce solutions. Management had also maintained effective control over its operating costs, which totaled HK\$9,822,000, compared to HK\$8,908,000 for the last corresponding period. The increase of HK\$914,000 in operating costs was mainly accounted for by an increase in expenditure on technology development of HK\$589,000 and an increase in marketing and promotion expenses of HK\$303,000 in line with the growth of the business.

During the period, the Company continued to pursue opportunities in the online security arena. It has forged new partnerships with technology companies targeted at integrating smart card technology into its existing payment platform. The Company 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.

Meanwhile, the continuing general economic downturn has affected market sentiment across the board, and poor corporate results had impacted negatively on spending in IT and in advertising. All these slowed down the roll-out of the Group's pilot projects, including *Video Vision*, a multi-media project deploying innovative advertising display solution with the use of a convergence of different digital technologies; and *Phone-a-Drink*, which enables electronic payment by mobile phone for the purchase of drinks. Both projects are targeted at advertising as the primary source of revenue. Negotiation with chain distribution outlets and shopping malls as target location for the advertising kiosks continued, while prospective advertisers are being lined up.

PROSPECTS

The market conditions and operating environment for pure Internet and e-commerce companies continue to be challenging in the wake of the global economic slowdown and the resultant weakening of consumer confidence. Management is monitoring signs of worldwide economic recovery, which may help to revive market sentiment.

To expand its income base, the Group is actively exploring other prospective business opportunities and pursuing partnerships to expand its product offerings. In particular, overseas companies are keen to penetrate the huge China market post-WTO accession, and the Group is positioning itself as distributor and value-add partner for a range of IT security and integrated web-based products and services needed to streamline and automate business operations.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2002, 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	<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:

1. 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 March 2002, Lawnside had interests in approximately 38.9% 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 (the "GEM Listing Rules").
2. 5,534,690,037 shares and 1,043,056,835 units of warrants were held by Lawnside. The warrants were issued by Champion pursuant to a bonus issue effected on 7 January 2002, all of which will be expired on 6 January 2003. These securities are classified as other interests under the GEM Listing Rules.
3. 1,265,940,702 of these shares were held by Champion and 399,084,420 of these shares were held by Lawnside. These securities 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 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 2002.

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 2002.

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 2002, 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 had 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 2002.

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.

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

During the nine months ended 31 March 2002, 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 May 2002