DIGITAL HONG KONG

DIGITALHONGKONG.COM

Interim Report 2002/2003

ABOUT DIGITALHONGKONG.COM (STOCK CODE: 8007)

DIGITALHONGKONG.COM ("Digital HK" or "the Company") was listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong (the "Stock Exchange") in April 2000. Started as a commerce service provider (CSP) that specialised 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 the 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)

INTERIM REPORT
For the six months ended 31 December 2002

HIGHLIGHTS

- Total turnover of HK$5,181,000
- Net profit for the period HK$93,000
- Operating costs reduced by approximately 22 percent
- Actively seeking new business opportunities to expand income base

The board of directors (the "Board") of DIGITALHONGKONG.COM (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the three and six months ended 31 December 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

		Three months ended 31 December		Six months ended 31 December	
		2002	2001	**2002**	2001
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Turnover	*(3)*				
Service income		**2,442**	3,254	**5,181**	6,694
Other revenue		**10**	28	**23**	86
Operating costs					
Acquired technology expensed		**(702)**	(702)	**(1,404)**	(1,403)
General and administrative expenses		**(663)**	(1,169)	**(1,575)**	(2,394)
Marketing and promotion expenses		**(359)**	(259)	**(614)**	(543)
Staff costs		**(665)**	(1,109)	**(1,518)**	(2,237)
Profit from operations		**63**	43	**93**	203
Taxation	*(5)*	**–**	–	**–**	–
Net profit for the period		**63**	43	**93**	203
Earnings per share – basic	*(6)*	**0.04 cents**	0.03 cents	**0.06 cents**	0.14 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2002

	Note	31 December 2002 HK$'000 (Unaudited)	30 June 2002 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**45**	104
Current assets			
Trade receivables	(8)	**3,516**	3,261
Deposits and prepayments		**4,085**	1,232
Amount due from a fellow subsidiary		**3,139**	3,279
Deposits, bank balances and cash		**5,713**	8,678
		16,453	16,450
Current liabilities			
Other payables and accrued charges		**463**	612
Net current assets		**15,990**	15,838
Net assets		**16,035**	15,942
CAPITAL AND RESERVES			
Share capital		**15,000**	15,000
Reserves		**1,035**	942
Shareholders' funds		**16,035**	15,942

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

	Share capital *HK$'000*	Capital reserve *HK$'000*	Share premium *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 July 2001	15,000	7,540	8,461	(15,333)	15,668
Net profit for the period	–	–	–	203	203
At 31 December 2001 and 1 January 2002	15,000	7,540	8,461	(15,130)	15,871
Net profit for the period	–	–	–	71	71
At 30 June 2002 and 1 July 2002	15,000	7,540	8,461	(15,059)	15,942
Net profit for the period	–	–	–	93	93
At 31 December 2002	**15,000**	**7,540**	**8,461**	**(14,966)**	**16,035**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

	Six months ended 31 December	
	2002	2001
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(2,965)**	980
NET CASH USED IN INVESTING ACTIVITIES	**–**	(22)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(2,965)**	958
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**8,678**	9,356
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by deposits, bank balances and cash	**5,713**	10,314

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2002

1. Basis of preparation

The condensed financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June, 2002, except as described below.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants, which has resulted in the adoption of the following revised accounting policies.

The adoption of these SSAPs has resulted in changes in the format of presentation of the cash flow statement and the inclusion of a statement of changes in equity in lieu of the statement of recognised gains and losses, but has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Cash Flow Statements

In the current period, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements", Under SSAP 15 (Revised), cash flows are under three headings - operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

3. Turnover and segment information

Turnover represents the amounts received and receivable for services rendered in establishing and providing secure e-commerce payment solutions.

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

4. Depreciation

During the six-month period ended 31 December 2002, depreciation of HK$59,000 (2001: HK$118,000) is charged in respect of the Group's property, plant and equipment.

5. 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.

6. Earnings per share

The calculation of basic earnings per share for the three months and six months ended 31 December 2002 is based on the respective unaudited net profit of HK$63,000 and HK$93,000 (2001: HK$43,000 and HK$203,000) and on the weighted average of 150,000,000 shares in issue throughout the period.

No diluted earnings per share has been presented as there were no dilutive potential ordinary shares in issue in both periods.

7. Dividend

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

8. Trade receivables

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

	31 December 2002 *HK$'000*	**30 June 2002** *HK$'000*
0-60 days	**1,988**	1,667
61-120 days	**1,528**	1,594
	3,516	3,261

The Group allows an average credit period ranging from 90 days to 120 days to its trade customers.

9. Capital Commitments

	31 December 2002 *HK$'000*	**30 June 2002** *HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment authorized but not contracted for	**1,000**	1,000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**–**	780
	1,000	1,780

BUSINESS REVIEW

The ongoing poor global economic performance, exacerbated by imminent outbreak of war and fears of terrorist attacks, continues to have negative impact on the local economy. IT sector, in particular, has been a victim of frozen budgets that characterize many corporates and SMEs amidst economic uncertainties.

Against a depressed market, the Company has continued to maintain its level of activity in pursuing business in relation to e-commerce payment solutions. Service fees derived from the Group's technical consultation services remained the primary source of income for the Group.

For the six-month period ended 31 December 2002, the Group recorded a turnover of HK$5,181,000, and net profit of HK$93,000, compared with HK$6,694,000 and HK$203,000 respectively of the corresponding period in the previous year. Earnings per share for the period was HK0.06 cents. Turnover and net profit for the quarter ended 31 December 2002 were HK$2,442,000 and HK$63,000.

In order to more closely match the Group's cost base with its current revenues, the Board has implemented a review of all operating costs, which amounted to HK$5,111,000 for the six-month reporting period, representing savings of approximately 22 percent compared to the figure of the previous year. The most significant cost-cutting measure was the reduction of staff by about fifty percent, in line with the expected level of business activities and increasing use of third party collaboration. Total staff costs amounted to HK$1,518,000, a reduction of approximately 32 percent, and general and administrative expenses totalled HK$1,575,000, a reduction of approximately 34 percent, compared to corresponding figures in the previous year. In addition, expenditure which characterized the start-up years had been much reduced. All of these initiatives have helped the Group to sustain profitability in spite of lower turnover. With net cash of HK$5,713,000, the Group remains in a healthy financial position.

During the period, we continued our efforts in developing vending kiosks which integrate with electronic and mobile payment, multi-media panel display, and wireless Internet. New DIY (do-it-yourself) mobile kiosk systems selling snacks, souvenirs, audio and movie clips, as well as photo prints using mobile phones for payment and selection instructions were being explored.

OUTLOOK

Whether market conditions will improve in the coming months remains a speculative issue. Suffice to say that for many companies, the immediate priority is to save costs in order to extend their survival period pending solid signs of market turnaround. Against this background, management will continue to strengthen its skills by collaborating with technology partners and seeking new business opportunities to expand its income base.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group's shareholders' funds amounted to approximately HK$16 million. Current assets amounted to approximately HK$16.5 million, of which approximately HK$5.7 million were represented by deposits, bank balances and cash. The Group had no non-current liabilities and its current liabilities amounted to approximately HK$0.5 million made up mainly of other payables and accruals.

The Group did not have any bank borrowings for the period ended 31 December 2002. The Group financed its operations primarily with internally generated cash. As at 31 December 2002, the Group did not have any material contingent liabilities nor any charges on its assets. With net current assets of HK$16 million, the Group was in a financially liquid position at the end of the period under review. The Group's gearing ratio, defined as the Group's total borrowings divided by shareholders' funds, was nil.

The Group made no acquisitions or disposals of subsidiaries and affiliated companies during the reporting period. As at 31 December 2002, the Group's capital commitments contracted for but not provided in the financial statements was nil (30 June 2002: HK$0.8 million) and capital expenditure authorized but not contracted for was HK$1 million (30 June 2002: HK$1 million). These commitments were set aside for the acquisition of property, plant and equipment.

The Group's foreign currency exposure is limited, as most of its transactions, assets and liabilities are denominated in Hong Kong dollars and United States dollars.

It is envisaged that the Company's financial resources are sufficient to provide for expenditure on operations and the development of new software solutions based on current plan. The Directors do not foresee the need to make any material borrowings or to raise additional capital in the near term, especially taking into consideration the unfavourable conditions in the capital markets. Management will carefully review the market conditions and available opportunities.

HUMAN RESOURCES

As at 31 December 2002, the Group employed 8 full time staff (30 June 2002: 15). There was no material change in the Group's remuneration policies as well as training programme since the release of the annual report for the preceding financial year ended 30 June 2002, except that a new Share Option Scheme was adopted during the period. Please refer to Share Option Scheme below.

The savings in staff cost of HK$0.7 million was mainly due to the downsizing and the directors' strict review of all operating costs in line with the expected level of business activities.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, 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**
Securities of the Company	
Mr. Paul Kan Man Lok	*Note 1*
Securities of Champion Technology Holdings Limited (“Champion”, the ultimate holding company of the Company)	
Mr. Paul Kan Man Lok	*Note 2*
Securities of Kantone Holdings Limited (“Kantone”, a subsidiary of Champion)	
Mr. Paul Kan Man Lok	*Note 3*

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 December 2002, Lawnside had interests in approximately 36% 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. 228,421,601 shares and 1,043,056,835 warrants were held by Lawnside. The warrants issued by Champion were expired on 6 January 2003. These securities are classified as other interests under the GEM Listing Rules.

3. 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 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 2002.

SHARE OPTION SCHEME

On 29 November 2002, the Company terminated its Share Option Scheme previously adopted on 27 March 2000, and adopted a new share option scheme (the "New Share Option Scheme"). Under the New Share Option Scheme, the Company may at its discretion grant options to subscribe for shares to the directors, employees and certain advisers of the Company, its subsidiaries and affiliates. Please refer to the Company's circular dated 7 November 2002 for details of the New Share Option Scheme.

No option has been granted by the Company under its New Share Option Scheme or the previous share option scheme.

DIRECTORS' RIGHT TO ACQUIRE EQUITY OR DEBT SECURITIES OF THE COMPANY

Other than the share option schemes as described above, at no time during the period was the Company, any of its holding companies, fellow subsidiaries or subsidiaries 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 or any other body corporate 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, or had exercised any such rights during the period.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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 INTERESTS

As at 31 December 2002, 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 competed with the Company or might compete with the business of the Group.

BOARD PRACTICES AND PROCEDURES

The Company had 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 OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 31 December 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, 10 February 2003