

DIGITAL WORLD HOLDINGS LIMITED

數字地球控股有限公司

(Incorporated in Bermuda with limited liability)



INTERIM REPORT

2002-2003

UNAUDITED CONSOLIDATED INTERIM RESULTS

The board of directors (the "Board") of Digital World Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 31st December, 2002 together with the comparative figures. The consolidated interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 31st December,	
		2002	2001
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER	2	22,762	33,175
Cost of sales		(19,542)	(31,490)
Gross profit		3,220	1,685
Other revenue		334	2,150
Administrative expenses		(14,495)	(14,852)
Net investments expenses		(5,777)	(10,398)
Provision for impairment loss of long term investments		(3,400)	(15,900)
Allowance for short-term loans receivable		(19,000)	-
Allowance for trade and other receivables		(2,014)	-
LOSS FROM OPERATING ACTIVITIES	3	(41,132)	(37,315)
Finance costs	4	(129)	(213)
Share of loss of an associate		(426)	(604)
NET LOSS FOR THE PERIOD		(41,687)	(38,132)
LOSS PER SHARE – Basic	6	(40 cents)	(469 cents)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st December, 2002

	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Goodwill (Unaudited) HK\$'000	Special reserves (Unaudited) HK\$'000	Distrib- able receive (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st July, 2002	79,043	351,526	(10,299)	847	39,387	(214,058)	17	246,463
Issue of shares	427	6,469	-	-	-	-	-	6,896
Share issue expenses	-	(202)	-	-	-	-	-	(202)
Capitalisation of shares	(78,054)	-	-	-	-	78,054	-	-
Exchange reserve	-	-	-	-	-	-	110	110
Loss for the period	-	-	-	-	-	(41,687)	-	(41,687)
At 31st December, 2002	1,416	357,793	(10,299)	847	39,387	(177,691)	127	211,580

For the six months ended 31st December, 2001

	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Goodwill (Unaudited) HK\$'000	Special reserves (Unaudited) HK\$'000	Distrib- able receive (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1st July, 2001	6,401	314,287	(100,257)	847	39,387	(23,009)	(26)	237,630
Issue of share	186	5,394	-	-	-	-	-	5,580
Exercise warrant	-	1	-	-	-	-	-	1
Exchange reserve	-	-	-	-	-	-	34	34
Loss for the period	-	-	-	-	-	(38,132)	-	(38,132)
At 31st December, 2001	6,587	319,682	(100,257)	847	39,387	(61,141)	8	205,113

CONDENSED CONSOLIDATED BALANCE SHEET

		At 31st December, 2002 (Unaudited) HK\$'000	At 30th June, 2002 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	8	8,634	10,380
Interest in an associate		300	226
Investments in securities		45,609	46,976
Intangible assets		500	1,500
Goodwill		18,912	-
Deposit made for acquisition of a subsidiary		-	20,000
		73,955	79,082
CURRENT ASSETS			
Trade and other receivables	9	26,238	24,525
Short-term loans receivable		84,963	127,544
Investments in securities		27,530	7,549
Inventory		191	-
Pledged bank deposits		12,000	17,576
Cash and bank balances		9,640	12,284
		160,562	189,478
CURRENT LIABILITIES			
Trade and other payables	10	18,985	17,544
Amount due to directors		295	345
Tax payable		130	130
Unsecured bank and other loans			
- due within one year		1,125	1,554
Obligations under finance leases			
- due within one year		37	37
		20,572	19,610
NET CURRENT ASSETS		139,990	169,868
TOTAL ASSETS LESS CURRENT LIABILITIES		213,945	248,950

CONDENSED CONSOLIDATED BALANCE SHEET

		At 31st December, 2002 (Unaudited) HK\$'000	At 30th June, 2002 (Audited) HK\$'000
CAPITAL AND RESERVES			
Share capital	11	1,416	79,043
Reserves		210,164	167,420
		211,580	246,463
Minority interests		463	4
NON-CURRENT LIABILITIES			
Unsecured bank and other loans			
– due after one year		1,875	2,438
Obligations under finance leases			
– due after one year		27	45
		1,902	2,483
		213,945	248,950

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 31st December, 2002 (Unaudited) <i>HK\$'000</i>	2001 (Unaudited) <i>HK\$'000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(7,996)	(16,568)
NET CASH INFLOW/(OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVING OF FINANCE	(262)	1,674
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(501)	(75,441)
Net cash outflow before financing activities	(8,759)	(90,335)
NET CASH INFLOW FROM FINANCING ACTIVITIES	6,115	4,113
DECREASE IN CASH AND CASH EQUIVALENTS	(2,644)	(86,222)
Cash and cash equivalents at beginning of period	12,284	114,906
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,640	28,684
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	9,640	28,684

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" ("SSAP 25") issued by the HKSA and with the applicable disclosure requirements of Appendix 16 to Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Except for the following changes, the accounting policies adopted by the Group in this interim report are consistent with those adopted in the preparing the Group's annual financial statements for the year ended 30th June, 2002.

- SSAP 1 (Revised): Presentation of financial statements
- SSAP 11 (Revised): Foreign currency translation
- SSAP 15 (Revised): Cash flow statements
- SSAP 25: Interim financial reporting
- SSAP 34: Employee benefits

The adoption of new/revised standards during the period has no material effect on the Group's results of the current and prior period other than the changes in the format of presentation of consolidated cash flow statement and the consolidated statement of changes in equity. Certain comparative figures have been reclassified to conform with the current period's presentation.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in 5 operating divisions namely distribution and trading; provision of entertainment services; provision of website, advertising and design services; provision of telecommunications and WAP services; and investment and financial services.

2. TURNOVER AND SEGMENT INFORMATION (continued)

Segment information about these businesses is presented below:

By Business segments**INCOME STATEMENT****FOR THE YEAR ENDED 31ST DECEMBER, 2002**

	Distribution and trading HK\$'000	Provision of entertainment services HK\$'000	Provision of website, advertising and design services HK\$'000	Provision of telecommunications and WAP services HK\$'000	Investment and financial services HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	5,760	1,211	420	6,886	8,485	-	22,762
Inter-segment sales	-	-	-	8	-	(8)	-
Total	<u>5,760</u>	<u>1,211</u>	<u>420</u>	<u>6,894</u>	<u>8,485</u>	<u>(8)</u>	<u>22,762</u>
Inter-segment sales are charged at prevailing market prices							
Segment results	<u>(2,763)</u>	<u>(181)</u>	<u>(2,741)</u>	<u>(3,929)</u>	<u>(29,089)</u>	<u>-</u>	<u>(38,703)</u>
Unallocated corporate expenses							<u>(2,429)</u>
Loss from operations							<u>(41,132)</u>
Finance costs							<u>(129)</u>
Share of loss of an associate							<u>(426)</u>
Loss before taxation							<u>(41,687)</u>
Taxation							<u>-</u>
Loss for the year							<u>(41,687)</u>

2. TURNOVER AND SEGMENT INFORMATION (continued)

INCOME STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, 2001

	Distribution and trading HK\$'000	Provision of entertainment services HK\$'000	Provision; of website, advertising and design services HK\$'000	Provision of telecommunications and WAP services HK\$'000	Investment and financial services HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE							
External sales	32,180	536	244	215	1,481	-	33,175
Segment results	(3,908)	(531)	(4,763)	(1,815)	(24,605)	-	(35,622)
Unallocated corporate expenses							(1,693)
Loss from operations							(37,315)
Finance costs							(213)
Share of loss of an associate							(604)
Loss before taxation							(38,132)
Taxation							-
Loss for the year							(38,132)

By Geographical segments

	Turnover Six months ended 31st December, 2002		Contribution to loss from operations Six months ended 31st December, 2001	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	22,293	32,931	(36,392)	(33,437)
PRC	93	244	(1,357)	(2,185)
Taiwan	376	-	(954)	-
	22,762	33,175	(38,703)	(35,622)
Unallocated corporate expenses			(2,429)	(1,693)
Loss from operations			(41,132)	(37,315)

3. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	For the six months ended 31st December, 2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Depreciation		
Owned assets	2,105	1,638
Assets held under finance leases	11	7
Amortisation of intangible assets	1,000	1,000
Loss on disposal of property, plant and equipment	5	-
	<hr/>	<hr/>

4. FINANCE COSTS

	For the six months ended 31st December, 2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Interest on hire purchase contracts	3	3
Interest on bank borrowing	85	82
	<hr/>	<hr/>

5. TAX

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profits arising in Hong Kong.

6. EARNINGS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of approximately HK\$41,687,000 (2001: HK\$38,132,000) and on the weighted average of 103,417,683 (2001: 8,123,663) ordinary shares in issue adjusted for the effect of the Company's consolidation of shares on 9th September, 2002.

Diluted loss per share for the period ended 31st December, 2002 has not been calculated as no diluting events existed during the period. No diluted loss per share for the period ended 31st December, 2001 has been presented as the conversion of warrants, which lapsed during the period, would result in a decrease in loss per share.

7. DIVIDEND

The directors do not recommend the payment of an interim dividend in respect of the six months ended 31st December, 2002 (2001: nil).

8. FIXED ASSETS

During the period, the Group acquired fixed assets for the amount of HK\$336,000 (2001: HK\$4,460,000).

9. TRADE AND OTHER RECEIVABLES

The credit terms granted by the Group to its trade customers normally range from 30 days to 150 days. Included in the balances are trade receivables of HK\$11,852,000 (30th June, 2002: HK\$17,535,000) and their aged analysis is as follows:

	31st December, 2002 (Unaudited) HK\$'000	30th June, 2002 (Audited) HK\$'000
Current – 1 month	1,645	1,473
1 – 3 months	565	10,451
Over 3 months	9,642	5,611
	11,852	17,535

10. TRADE AND OTHER PAYABLES

Included in the balances are trade payables of HK\$1,287,000 (30th June, 2002: HK\$9,313,000) and their aged analysis is as follows:

	31st December, 2002 (Unaudited) HK\$'000	30th June, 2002 (Audited) HK\$'000
Current – 1 month	975	2,107
1 – 3 months	312	7,206
	1,287	9,313

11. SHARE CAPITAL

	No. of shares	Amount HK\$
Issued and fully paid:		
At the beginning of the period	7,904,257,416	79,042,574
Consolidation of shares	(7,805,454,199)	(78,054,542)
Placing of shares	42,796,783	427,968
At the end of the period	141,600,000	1,416,000

Share option scheme:

The Company has a share option scheme under which the directors and employees of the Company and its subsidiaries may be granted options to subscribe for ordinary shares in the Company. As at 31st December, 2002, no option had been granted under the scheme.

12. ACQUISITION OF A SUBSIDIARY

**As at
31st December,
2002**
HK\$'000

Net assets acquired:	
Fixed assets	39
Intangible assets	62
Cash and bank balances	1,396
Trade and other receivables	146
Inventory	70
Trade and other payables	(159)
Minority interests	(466)
	<hr/>
	1,088
Goodwill on acquisition	<hr/> 18,912
	<hr/> 20,000 <hr/>
Satisfied by:	
Cash	<hr/> 20,000 <hr/>

13. COMMITMENTS AND CONTINGENT LIABILITIES

On 10th November, 2000, the Company has been named as a defendant in a legal action in which a claim have been made against the Company for failure to pay, as the guarantor, an amount of approximately HK\$5,996,000 and related interest. The directors, after seeking legal advice, are of the opinion that the eventual resolution of the legal action is unlikely to result in payment by the Group and no provision for any potential liability is required in the financial statements.

Saved as disclosed, as at 31st December, 2002, the Company and the Group had no significant commitments and contingent liabilities.

14. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

At 31st December, 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31st December, 2002 (Unaudited) HK\$'000	30th June, 2002 (Audited) HK\$'000
Within one year	925	1,767
In the second to fifth years, inclusive	756	205
	<hr/> 1,681 <hr/>	<hr/> 1,972 <hr/>

15. RELATED PARTY TRANSACTIONS

At 31st December, 2002, the Company had given a guarantee amounting to HK\$3,000,000 (30th June, 2002: HK\$3,563,000) to a bank in respect of banking facilities granted by the bank to Digital Nunet Exchange Limited ("Digital Nunet") which is 55% owned by the Group. Also the Group had advanced approximately HK\$10,000,000 (30th June, 2002: HK\$10,000,000) to Digital Nunet. The advance is unsecured, repayable on demand and carries interest at 5% per annum. The guarantee given by the Group and advance made by the Group were the only financial assistance given by Digital Nunet's shareholders to Digital Nunet.

In addition, at 31st December, 2002, the Group had advanced approximately HK\$14,176,000 (30th June, 2002: 13,966,000) to Michael Lai Production Holdings Limited ("Michael Lai Production") which is 70% owned by the Group. The advance is unsecured, interest free and repayable on demand. The advance made to Michael Lai Production was the only financial assistance given by Michael Lai Production's shareholders to Michael Lai Production.

16. APPROVAL OF THE INTERIM REPORT

These interim financial statements were approved and authorised for issue by the Board on 26th March, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

For the six months ended 31st December, 2002, the turnover of the Group was approximately HK\$22.76 million, representing a decrease of 31.39% as compared to the corresponding period last year. The further reduction in turnover was due to the conservativeness of the Board in accepting orders only from very justified customers.

The loss attributable to shareholders of the Group for the six months ended 31st December, 2002 increased by approximately HK\$3.56 million (or 9.32%) to approximately HK\$41.69 million as compared to the corresponding period last year. The further increase of loss was due to the Group provides "prudent" concept to accept the customers and thus decreased our net profit.

Review of operation

During the period under review, the market sentiment of the worldwide remains poor and uncertain. To cope with this difficult market, the Group has taken a "prudent" concept and tightening costs and internal control.

(i) On the "Trading" aspect

The Group's turnover and gross profit had been decreased as the Group continues to adopt a prudent strategy in order to avoid potential bad debt and further squeezing in the profit margin.

(ii) On the "Lending" aspect

As the market sentiment remains poor. Hence, the Group has reduced substantially new loan operation while trying to recall the existing loans. However, the result is not good and certain bad debt has been encountered.

Meanwhile, the Group's investment in shares has also been affected with the general softening of the market and the loss of confidence in small to medium capitalization equities.

(iii) On the "Telecom" aspect

Calling card business is expanding and additional brand have been pushed to the market for different market segmentation.

The Group is going to push the corporate account business via the pre-fix "1629".

(iv) On the "WAP" aspect

No major breakthrough has been obtained. Additionally, due to technical issue, new services had not been pushed to the market and thus no revenue had been obtained during the period.

(v) On the "Entertainment" aspect

During the period, the Group had been appointed as an organizer of several governmental concerts and a good comment and result are obtained.

Due to tightening our cost, Beijing Office had been relocated to another place with lower expenses.

Future prospect

In February 2003, the Group appointed Asiantimes Vision Holdings Limited ("Asiantimes"), a company operated by Mr. Loo Chung Keung, Steve (" Mr. Loo"), ex-Senior Vice President and Director of Asia Television Limited ("ATV") to act as our agent in selling the airtime on an exclusive basis. Mr. Loo has confirmed and committed to the Group that all the airtime have been sold through his historical connection with ATV. The Group is looking forward to the actual booking and the subsequent payment.

To the best of the Group's knowledge, Asiantimes is a wholly owned subsidiary of West Marton Group Limited, in which Mr. Loo indirectly holds 60% and the Group holds 30%.

In addition, Mr. Loo has also been appointed by the Group as a Consultant in March 2003 in reviewing the Group's account and other matters, including advising the audit committee in reviewing the interim and annual report, on a monthly basis with a remuneration of HK\$15,000.

Interim Dividend

The directors do not recommend the payment of an interim dividend in respect of the six months ended 31st December, 2002 (2001: Nil).

Liquidity and financial resources

The Group maintains its good financial position with cash and cash equivalents of approximately HK\$9.64 million (30th June, 2002: HK\$11.9 million). With the exception of a machinery loan for HK\$3 million to Digital Nunet Exchange Limited ("Dnunet"), the Groups is basically debt-free and at a net cash position.

As at 31st December, 2002, the Group had a net current assets of approximately HK\$140 million (30th June, 2002: HK\$170 million). The shareholder equity was of approximately HK\$212 million (30th June, 2002: HK\$246 million) and the outstanding bank loan and other borrowings was only of approximately HK\$3 million (30th June, 2002: HK\$4 million), and accordingly the gearing ratio was only 0.014 (30th June, 2002: 0.016).

The Board is in the opinion that the Group has sufficient resources and working capital to meet its future development.

The Group's business transactions are denominated in Hong Kong dollars, and thus the Group did not engage in any hedging activities.

Save as disclosed, as at 31st December, 2002, the Company and the Group had no significant commitments and contingent liabilities.

Employees and remuneration policies

The Group had a total of approximately 38 employees as at 31st December, 2002. The Group recognises the importance of its human resources to its success. Employees are remunerated based on their performance and the prevailing industry practice, with remuneration policies and packages being reviewed on a regular basis. Other staff benefits provided by the Group include mandatory provident fund and medical insurance schemes.

DIRECTORS' INTERESTS IN SHARES

At 31st December, 2002, the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Ordinary shares of the Company

Name of director	Number of ordinary shares held and nature of interest	
	Corporate	Personal
Mr. Chan Tak Hung	–	25,857,053
Mr. Lai Tin Ying, Michael (<i>Note</i>)	–	2,500

Note: In addition, at 31st December, 2002, Lai Tin Ying, Michael held 30% interest in the shares of Michael Lai Production Holdings Limited, a 70% owned subsidiary of the Company.

Save as disclosed above and as disclosed below under the heading "Directors' rights to acquire shares", none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance and recorded in the register required to be maintained pursuant to Section 29 thereof.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company has a share option scheme to enable the directors of the Company to grant options to eligible employees, including executive directors, of the Company and its subsidiaries to subscribe for shares in the Company.

No share options were granted during the period and there are no share options outstanding as at 31st December, 2002.

SUBSTANTIAL SHAREHOLDERS

At 31st December, 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of ordinary shares held	Percentage of the Company's share capital
Mr. Chan Tak Hung	25,857,053	18.26%

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 31st December, 2002.

AUDIT COMMITTEE

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. This interim Financial Statements for the Period has been reviewed by the Audit Committee.

The Audit Committee comprises two independent non-executive directors of the Company.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the six months ended 31st December, 2002.

APPRECIATION

On behalf of the Board, I would like to extend the gratitude and sincere appreciation to all management and staff members for their efforts. Thanks have also been given to the continuous support of business partners and the Company's shareholders for their patience.

By order of the board

DIGITAL WORLD HOLDINGS LIMITED

Yeung Wood Sang

Director

Hong Kong, 26th March, 2003