



數碼香港 DIGITALHONGKONG.COM

interim report 2003/2004

ABOUT DIGITALHONGKONG.COM (STOCK CODE: 8007)

DIGITALHONGKONG.COM (“Digital HK”) was listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 positioned itself to integrate both online and offline assets, as well as to engage in selected technology investments and distribution of branded technology products and solutions.

Digital HK and its subsidiaries now operate the following complementary lines of business:

- provision of Internet and e-commerce enabling solutions
- provision of IT consulting and technical services
- strategic investments in selected technologies and applications with a view to providing total solutions

Digital HK is a subsidiary of Champion Technology Holdings Limited, 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 2003

HIGHLIGHTS

- Total turnover HK\$4,369,000
- Net profit for the period HK\$98,000
- Continued focus on cost management and efficiency improvement

The board of directors (the “Board”) of DIGITALHONGKONG.COM (the “Company” or “Digital HK”) 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 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

		Three months ended		Six months ended	
		31 December		31 December	
		2003	2002	2003	2002
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	(3)				
Service income		2,268	2,442	4,369	5,181
Other operating income		8	10	20	23
Operating costs					
Acquired technology expensed		(349)	(702)	(700)	(1,404)
General and administrative expenses		(616)	(663)	(1,269)	(1,575)
Marketing and promotion expenses		(615)	(359)	(1,276)	(614)
Staff costs		(618)	(665)	(1,046)	(1,518)
Profit from operations		78	63	98	93
Taxation	(5)	-	-	-	-
Net profit for the period		78	63	98	93
Earnings per share – basic	(6)	0.05 cents	0.04 cents	0.07 cents	0.06 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2003

	<i>Note</i>	31 December 2003 HK\$'000 (Unaudited)	30 June 2003 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		11	23
Systems and networks		1,462	1,787
		1,473	1,810
Current assets			
Trade receivables	(8)	4,253	4,455
Deposits and prepayments		4,053	1,062
Amount due from a fellow subsidiary		233	1,951
Deposits, bank balances and cash		6,628	7,327
		15,167	14,795
Current liabilities			
Other payables and accrued charges		458	521
Net current assets		14,709	14,274
Net assets		16,182	16,084
Capital and reserves			
Share capital		15,000	15,000
Reserves		1,182	1,084
Shareholders' funds		16,182	16,084

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Share capital HK\$'000	Capital reserve HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2002	15,000	7,540	8,461	(15,059)	15,942
Net profit for the period	—	—	—	93	93
At 31 December 2002 and 1 January 2003	15,000	7,540	8,461	(14,966)	16,035
Net profit for the period	—	—	—	49	49
At 30 June 2003 and 1 July 2003	15,000	7,540	8,461	(14,917)	16,084
Net profit for the period	—	—	—	98	98
At 31 December 2003	<u>15,000</u>	<u>7,540</u>	<u>8,461</u>	<u>(14,819)</u>	<u>16,182</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Six months ended 31 December	
	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Net cash used in operating activities	(716)	(2,988)
Net cash from investing activities	17	23
Decrease in cash and cash equivalents	(699)	(2,965)
Cash and cash equivalents at beginning of the period	7,327	8,678
Cash and cash equivalents at end of the period, represented by deposits, bank balances and cash	<u>6,628</u>	<u>5,713</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

1. Basis of preparation

The unaudited condensed financial statements have been prepared under the historical cost convention and in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

2. Principal accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the audited financial statements of the Group for the year ended 30 June 2003, except that the Company has adopted, for the first time in the current period, SSAP No. 12 (Revised) "Income taxes" ("SSAP 12 (Revised)") issued by the HKSA.

The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this standard has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. Turnover and segment information

Turnover represents the amounts received and receivable for services rendered in establishing and providing secured 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 the People's Republic of China including Hong Kong.

4. Depreciation

During the six-month period ended 31 December 2003, depreciation of HK\$337,000 (2002: HK\$59,000) is charged in respect of the Group's property, plant and equipment, and systems and networks.

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 2003 is based on the respective unaudited net profit of HK\$78,000 and HK\$98,000 (2002: HK\$63,000 and HK\$93,000) and on the weighted average of 150,000,000 shares in issue throughout the periods.

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 2003 (2002: nil).

8. Trade receivables

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

	31 December 2003 HK\$'000 (Unaudited)	30 June 2003 HK\$'000 (Audited)
0-60 days	2,055	2,308
61-120 days	1,903	2,026
Over 120 days	295	121
	<u>4,253</u>	<u>4,455</u>

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

9. Capital Commitments

	31 December 2003 HK\$'000 (Unaudited)	30 June 2003 HK\$'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment, and systems and networks authorized but not contracted for	<u>500</u>	<u>500</u>

BUSINESS REVIEW

The Group recorded turnover of HK\$4,369,000 for the six-month period ended 31 December 2003, compared with HK\$5,181,000 for the corresponding period last year. Net profit for the period was HK\$98,000, compared with that of HK\$93,000 for last year. The results reflected an improvement in profit margin due to efforts of management in optimizing the operational efficiency, notwithstanding continuing soft demand for IT services as many corporates and SMEs continued to experience budgetary constraints.

The main focus during the period was continuing pursuit of business in relation to e-commerce solutions. Service fees derived from the Group's technical consultation services remained the primary source of revenue. Traffic to Internet shopping sites has steadily increased, bringing direct benefits to our e-commerce business. However, in light of the challenging conditions faced by the e-commerce industry, the Group is continuing its strategies targeted at reducing expenses and preserving resources wherever appropriate.

The Group continued to benefit from effective cost control measures. Overall operating costs for the period were HK\$4,291,000, compared with that of HK\$5,111,000 for the previous corresponding period. The Group continued to explore cost-effective sales and distribution channels with respect to revenue-generation potential, which was reflected in the increase in marketing and promotion expenses to HK\$1,276,000. This trend is expected to continue in order to bring positive results to our earnings. The Group's financial position remains healthy, with net cash of HK\$6,628,000.

PROSPECTS

In spite of the gradual economic recovery and increasing optimism on the general operating environment, overall outlook for the industry remains uncertain, and intense price and services competition is expected to continue. As the Internet and high technology industry is fast changing, and substantial resources are required to build market share to achieve the necessary critical mass, the Group will remain cautious in the implementation of its strategies during the current financial year ending 30 June 2004, and will consider various options available to it.

In terms of strategic investments, the Group will continue to look for opportunities in companies and businesses with attractive valuations, good growth potential, sound management and products or services where there is a good synergy with the Group's activities.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group's shareholders' funds amounted to approximately HK\$16 million. Current assets amounted to approximately HK\$15.2 million, of which approximately HK\$6.6 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 2003. The Group financed its operations primarily with internally generated cash. As at 31 December 2003, the Group did not have any material contingent liabilities nor any charges on its assets. With net current assets of HK\$14.7 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 2003, the Group's capital commitments authorized but not contracted for was HK\$0.5 million (30 June 2003: HK\$0.5 million). These commitments were set aside for the acquisition of property, plant and equipment, and systems and networks.

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. If required, the Directors will consider the use of either debt or equity financing, or both, for business expansion, especially when the appropriate business opportunities become available and market conditions are favourable.

HUMAN RESOURCES

There was no material change in the Group's number of employees, remuneration policies, or training programme since the release of the annual report for the preceding financial year ended 30 June 2003.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

At 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register

required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Rule 5.40 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) were as follows:

Name of director	Capacity/ Nature of interest	Number of shares	Approximate percentage of shareholding
<i>Securities of the Company</i>			
Mr. Paul Kan Man Lok	The person who sets up the discretionary trust and a discretionary object of the trust	119,969,171 (Note 1)	79.98%
<i>Securities of Champion Technology Holdings Limited (“Champion”, the holding company of the Company)</i>			
Mr. Paul Kan Man Lok	The person who sets up the discretionary trust and a discretionary object of the trust	303,202,605 (Note 2)	31.39%
<i>Securities of Kantone Holdings Limited (“Kantone”, a subsidiary of Champion)</i>			
Mr. Paul Kan Man Lok	The person who sets up the discretionary trust and a discretionary object of the trust	1,665,025,122 (Note 3)	74.97%

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 2003, Lawnside held approximately 31.39% of the entire issued share capital of Champion. Mr. Paul Kan Man Lok was considered to have an interest in these shares through his interest in Champion and Lawnside.
- 303,202,605 shares were held by Lawnside.
- 1,265,940,702 shares were held by Champion and 399,084,420 shares were held by Lawnside.

Save as disclosed above, none of the directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations as defined in Part XV of the SFO as at 31 December 2003.

SHARE OPTIONS AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than share option schemes, at no time during the period under review was the Company, any of its holding company, 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 spouse or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

During the period under review, no option was granted, exercised, cancelled, lapsed or outstanding under the Company's share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following persons (other than a director or chief executive of the Company disclosed under "Directors' Interests and Short Positions in Securities") had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of shares	Approximate percentage of shareholding
Champion	Beneficial interest <i>(see Note 1 above)</i>	117,300,000	78.2%
Lawnside	Beneficial and corporate interest <i>(see Note 1 above)</i>	119,969,171	79.98%

Saved as disclosed herein and disclosed under "Directors' Interests and Short Positions in Securities", the Company had not been notified of any person, other than a director or chief executive of the Company, having interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

COMPETING INTERESTS

None of the directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competes with the Company or may 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 2003, 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, 9 February 2004