

DIGITAL
HONG KONG



數碼香港 DIGITALHONGKONG.COM

Digital Hong Kong

FIRST QUARTER REPORT 2004/2005

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

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

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 Stock 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)

FIRST QUARTER REPORT

For the three months ended 30 September 2004

HIGHLIGHTS

- Total turnover HK\$1,675,000
- Net profit for the quarter HK\$192,000
- Group's financial position remains healthy with no bank borrowings

RESULTS

The board of directors (the “Board”) of DIGITALHONGKONG.COM (the “Company” or “Digital HK”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30 September 2004 together with the comparative unaudited figures for the corresponding period in 2003 as follows:

		Three months ended	
		30 September	
		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Turnover			
Service income		1,675	2,101
Other operating income		1	12
Operating costs			
Acquired technology expensed		–	(351)
General and administrative expenses		(504)	(653)
Marketing and promotion expenses		(498)	(661)
Staff costs		(482)	(428)
Profit from operations		192	20
Taxation	(1)	–	–
Net profit for the period		<u>192</u>	<u>20</u>
Earnings per share – basic	(2)	<u>0.128 cents</u>	<u>0.013 cents</u>

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 estimated assessable profit was wholly absorbed by tax losses brought forward.

2. Earnings per share

The calculation of the basic earnings per share for the three months ended 30 September 2004 is based on the unaudited net profit for the period of HK\$192,000 (2003: HK\$20,000) and on the weighted average of 150,000,000 shares in issue throughout the periods. The comparative figure for basic earnings per share has been revised to conform with the current period's presentation.

No diluted earnings per share has been presented as there were not in issue any securities with potential dilutive effect in both periods.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the quarter ended 30 September 2004 (2003: NIL).

BUSINESS REVIEW

For the quarter ended 30 September 2004, the Group recorded a turnover of HK\$1,675,000, compared with HK\$2,101,000 of the last corresponding period. Net profit for the first quarter was HK\$192,000, an increase of 8.6 times compared with HK\$20,000 of last corresponding period. Earnings per share for the period was HK0.128 cents, compared with HK0.013 cents of last corresponding period.

The Group continued to exercise stringent cost control and adopt a light but effective overhead structure. Such measures have proved highly effective, as evidenced by total operating costs of HK\$1,484,000, a further savings of 29% from HK\$2,093,000 of last corresponding period. As at 30 September 2004, the Group's financial position remained healthy and it had no bank borrowings.

During the period, the Group's main focus continued to be the pursuit of business in relation to e-commerce solutions. Service fees derived from the Group's technical consultation services remained the primary source of income for the Group. Amidst intense market competition and soft demand for IT services, the Group has adopted a conservative approach in rolling out its business activities.

In line with the Group's business strategy, Digital HK made an investment in Belcher Technology Limited ("Belcher"), a company involved in software consulting and the development of software packages that enable researchers to efficiently examine, interpret and store data to speed up discovery and advance scientific knowledge. Belcher's solutions are based on proprietary software and customised database design tools targeted at empowering the process of drug discovery. Its area of expertise is in bio-pharmaceutical products, particularly in developing drugs and vaccines for serious infectious diseases.

OUTLOOK

The Group will continue to manage its expenses while prudently invest in potential investment projects or businesses in order to create value to the Group and the shareholders of the Company.

The Group has identified healthcare and related IT services as the direction and opportunity for growth. Websites on healthcare, as well as online purchases of health foods, medical prescriptions and consultation are gaining increasing popularity. Encouraged by the strong growth prospects driven by heightened consciousness of health across the board, the Group intends to participate more actively in the marketing and promotion of information medicine and online healthcare services through new investments and partnerships. The pursuit of life sciences and information technology projects is expected to usher in promising business opportunities and enhanced return to the Group, while leveraging the Group's expertise in IT and in providing internet-based solutions.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

At 30 September 2004, 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 corporation (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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long position:

Name of director	Capacity	Number of shares	Percentage of the issued share capital	Number of warrants
<i>Securities of the Company</i> Mr. Paul Kan Man Lok	Corporate interest	<i>Note 1</i>	79.98%	–
<i>Securities of Champion Technology Holdings Limited ("Champion", the Company's ultimate holding company)</i> Mr. Paul Kan Man Lok	Corporate interest	<i>Note 2</i>	28.53%	<i>Note 2</i>
<i>Securities of Kantone Holdings Limited ("Kantone", a subsidiary of Champion)</i> Mr. Paul Kan Man Lok	Corporate interest	<i>Note 3</i>	74.95%	–

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 Mr. Paul Kan Man Lok. As at 30 September 2004, Lawnside had interests in approximately 28.53% of the entire interest of Champion. Mr. Paul Kan Man Lok was deemed to have corporate interest in the shares which were owned by Champion and Lawnside.

2. 340,930,150 shares and 64,437,619 warrants were held by Lawnside. The warrants issued by Champion will expire on 7 February 2005.
3. 1,322,420,962 shares were held by Champion and 407,779,752 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 30 September 2004.

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 spouses 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 30 September 2004, the following persons (other than the directors or chief executive of the Company whose interests are disclosed under "Directors' Interests and Short Positions in Securities" section) that had interests or short positions in the share capital or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Name of shareholder	Long/short position	Capacity	Number of shares	Percentage of the issued share capital
Champion	Long	Beneficial owner	117,300,000*	78.20%

* See <Note 1> in the "Directors' Interests and Short Positions in Securities" section.

Save as disclosed herein and disclosed under "Directors' Interests and Short Positions in Securities" section, 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 (as defined in the GEM Listing Rules) had an interest in a business which competes with the Company or may compete with the business of the Group.

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

During the quarter ended 30 September 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited first quarter report.

By order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 8 November 2004

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