

DIGITAL
HONG KONG



數碼香港 DIGITALHONGKONG.COM

Digital Hong Kong

INTERIM 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)

INTERIM REPORT

For the six months ended 31 December 2004

HIGHLIGHTS

- Total turnover HK\$3,678,000
- Net profit for the period HK\$426,000
- Group's financial position remains liquid and healthy with no bank borrowings

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 2004 (the "Interim Report") together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Notes	Three months ended		Six months ended	
		31 December 2004	2003	31 December 2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	(2)				
Service income		2,003	2,268	3,678	4,369
Other operating income		5	8	6	20
Operating costs					
Acquired technology expensed		-	(349)	-	(700)
General and administrative expenses		(668)	(616)	(1,172)	(1,269)
Marketing and promotion expenses		(498)	(615)	(996)	(1,276)
Staff costs		(608)	(618)	(1,090)	(1,046)
Profit from operations		234	78	426	98
Taxation	(4)	-	-	-	-
Net profit for the period		<u>234</u>	<u>78</u>	<u>426</u>	<u>98</u>
Earnings per share – basic	(5)	<u>0.156 cents</u>	<u>0.052 cents</u>	<u>0.284 cents</u>	<u>0.065 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2004

	<i>Note</i>	31 December 2004 HK\$'000 (Unaudited)	30 June 2004 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		2	5
Systems and networks		813	1,137
Interest in an associate	(7)	312	–
		<u>1,127</u>	<u>1,142</u>
Current assets			
Trade receivables	(8)	4,097	1,823
Deposits and prepayments		5,573	8,883
Amount due from a fellow subsidiary		167	289
Deposits, bank balances and cash		6,226	4,868
		<u>16,063</u>	<u>15,863</u>
Current liabilities			
Other payables and accrued charges		437	678
Net current assets		<u>15,626</u>	<u>15,185</u>
Net assets		<u>16,753</u>	<u>16,327</u>
Capital and reserves			
Share capital		15,000	15,000
Reserves		1,753	1,327
Shareholders' funds		<u>16,753</u>	<u>16,327</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Share capital <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2003	15,000	7,540	8,461	(14,917)	16,084
Net profit for the period	—	—	—	98	98
At 31 December 2003 and 1 January 2004	15,000	7,540	8,461	(14,819)	16,182
Net profit for the period	—	—	—	145	145
At 30 June 2004 and 1 July 2004	15,000	7,540	8,461	(14,674)	16,327
Net profit for the period	—	—	—	426	426
At 31 December 2004	<u>15,000</u>	<u>7,540</u>	<u>8,461</u>	<u>(14,248)</u>	<u>16,753</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

	Six months ended 31 December	
	2004 <i>HK\$'000</i> (Unaudited)	2003 <i>HK\$'000</i> (Unaudited)
Net cash from (used in) operating activities	1,664	(716)
Net cash (used in) from investing activities	(306)	17
Net increase (decrease) in cash and cash equivalents	1,358	(699)
Cash and cash equivalents at beginning of the period	4,868	7,327
Cash and cash equivalents at end of the period, represented by deposits, bank balances and cash	<u>6,226</u>	<u>6,628</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2004

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 Institute of Certified Public Accountants.

The accounting policies adopted are consistent with those in the preparation of the audited financial statements of the Group for the year ended 30 June 2004.

2. Turnover and segment information

Turnover represents the amounts received and receivable for services rendered in establishing and providing secured electronic payment processing platform and provision of software licensing services.

	Three months ended		Six months ended	
	31 December		31 December	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Provision of secured electronic payment processing platform	1,340	1,647	2,235	3,280
Provision of software licensing services	663	621	1,443	1,089
	<u>2,003</u>	<u>2,268</u>	<u>3,678</u>	<u>4,369</u>

No business segment analysis and geographical segment analysis are presented for the periods 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.

3. Amortisation and depreciation

During the three-month and six-month period ended 31 December 2004, amortisation and depreciation of HK\$163,000 and HK\$327,000 (2003: HK\$167,000 and HK\$337,000) is charged respectively in respect of the Group’s property, plant and equipment, and systems and networks.

4. 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.

5. Earnings per share

The calculation of the basic earnings per share for the three months and six months ended 31 December 2004 is based on the respective unaudited net profit for the period of HK\$234,000 and HK\$426,000 (2003: HK\$78,000 and HK\$98,000) and on the weighted average of 150,000,000 shares in issue throughout the periods. The comparative figures for basic earnings per share have 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 the periods.

6. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2004 (2003: NIL).

7. Interest in an associate

	31 December 2004 HK\$'000 (Unaudited)	30 June 2004 HK\$'000 (Audited)
Share of net assets	31	–
Amount due from an associate	281	–
	312	–

The Group holds a 40% interest in the issued capital in Belcher Technology Limited ("Belcher"), a company incorporated in Samoa, which is engaged in investment holding in software consulting and the development of software systems that enables 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. The amount due from an associate is unsecured, interest free and has no fixed repayment terms. In the opinion of the directors, the amount will not be repaid within one year from the reporting date. Accordingly, the said amount is shown in the condensed consolidated balance sheet as a non-current asset. During the period, this company has not derived any dividend income from its investment.

8. Trade receivables

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

	31 December 2004 HK\$'000 (Unaudited)	30 June 2004 HK\$'000 (Audited)
0-60 days	1,800	1,823
61-120 days	873	–
Over 120 days	1,424	–
	<u>4,097</u>	<u>1,823</u>

The Group allows an average credit period ranging from 90 days to 120 days to its trade customers dependent on their credit worthiness, nature of services and condition of the market.

9. Capital Commitments

	31 December 2004 HK\$'000 (Unaudited)	30 June 2004 HK\$'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	<u>500</u>	<u>500</u>

FINANCIAL AND BUSINESS REVIEW

For the six-month period ended 31 December 2004, the Group recorded a turnover of HK\$3,678,000, compared with HK\$4,369,000 for the corresponding period last year. Net profit for the period was HK\$426,000, compared with that of HK\$98,000 for last year. The turnover of the Group for the quarter ended 31 December 2004 was HK\$2,003,000, compared with HK\$1,675,000 recorded in the previous quarter. Earnings per share for the six-month period was HK0.284 cents, compared with HK0.065 cents of the corresponding period last year.

The Group continued to exercise stringent cost control and was able to effectively leverage the manpower and resources of its business partners to provide better distribution channels and more comprehensive service offerings. Total operating costs for the period were HK\$3,258,000, compared with HK\$4,291,000 of last year.

The main focus of the Group during the period was to further its business activities in relation to the provision of 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 plans.

In line with the Group's corporate strategy, Digital HK acquired a 40% interest in Belcher Technology Limited ("Belcher"), a company engaged in investment holding in software consulting and the development of software systems that enables 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. As at 31 December 2004, the total interest in the associated company amounted to HK\$312,000.

OUTLOOK

In spite of the gradual economic recovery and increasing optimism on the general operating environment, overall outlook for the IT industry remains uncertain, and intense price and services competition is expected to continue.

To expand our revenue streams and increase our growth potential, the Group has identified healthcare and related IT services as the direction and opportunity for future growth. 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.

As at 31 December 2004, the Group's financial position remained liquid and healthy. The Group is well-prepared financially to make the necessary investments as and when opportunities arise.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group's shareholders' funds amounted to approximately HK\$16,753,000. Current assets amounted to approximately HK\$16,063,000, of which approximately HK\$6,226,000 were represented by deposits, bank balances and cash. The Group had no non-current liabilities and its current liabilities amounted to approximately HK\$437,000 made up mainly of other payables and accruals arising in the normal course of operations.

The Group did not have any bank borrowings for the period ended 31 December 2004. The Group financed its operations primarily with internally generated cash. As at 31 December 2004, the Group did not have any material contingent liabilities nor any charges on its assets. With net current assets of HK\$15,626,000, 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.

Save for the acquisition of 40% interests in Belcher Technology Limited, details of which are set out in the section headed “Financial and business review” above, the Group made no acquisitions or disposals of subsidiaries and affiliated companies during the reporting period.

As at 31 December 2004, the Group’s capital commitments authorised but not contracted for was HK\$500,000 (30 June 2004: HK\$500,000). 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. 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 2004. During the period, the Group employed 8 full-time staff members, all of whom are based in Hong Kong. Staff costs for the six-month period were HK\$1,090,000. Remuneration is determined by reference to market terms and the performance, qualification and experience of the individual employee. Remuneration includes monthly salaries, performance-linked year-end bonuses, share options, the retirement benefits under the Mandatory Provident Fund Scheme and other benefits.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 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>	28.54%	<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 beneficially wholly owned by Mr. Paul Kan Man Lok. As at 31 December 2004, Lawnside had interests in approximately 28.54% 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.
- 342,930,150 shares and 64,437,619 warrants were held by Lawnside. The warrants issued by Champion will expire on 7 February 2005.
- 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 31 December 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 31 December 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) 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:

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%
Lawsidie	Long	Beneficial and corporate interest	119,969,171*	79.98%

* 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 six months ended 31 December 2004, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company had complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the period under review.

COMPLIANCE WITH RULES 5.48 TO 5.67 OF THE GEM LISTING RULES

The Company has adopted a code of conduct regarding directors' securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 31 December 2004. The Company has made specific enquiry of all directors, result of which indicates that its directors have complied with such code of conduct throughout the six months ended 31 December 2004.

AUDIT COMMITTEE

The Company has established an audit committee on 27 March 2000 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review annual report, interim report and quarterly report and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three independent non-executive directors, Mr Billy Ho Yiu Ming, Mr Francis Gilbert Knight and Ms Shao Xiang Ming and two non-executive directors, Mr Leo Kan Kin Leung and Mr Lai Yat Kwong. The unaudited interim report for the six months ended 31 December 2004 has been reviewed by the audit committee.

By order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 3 February 2005

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