

DIGITAL
HONG KONG



數碼香港 DIGITALHONGKONG.COM

Digital Hong Kong

THIRD 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)

THIRD QUARTER REPORT For the nine months ended 31 March 2005

HIGHLIGHTS

- Total turnover for the three months and nine months ended 31 March 2005 amounted to HK\$1,622,000 and HK\$5,300,000 respectively
- Net profit for the three months and nine months ended 31 March 2005 amounted to HK\$342,000 and HK\$768,000 respectively
- The Group's financial position remains liquid and healthy

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 and nine months ended 31 March 2005 together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

	Three months ended		Nine months ended	
	31 March		31 March	
	2005	2004	2005	2004
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover				
Service income	1,622	2,032	5,300	6,401
Other operating income	8	8	14	28
Operating costs				
Acquired technology expensed	-	(174)	-	(874)
General and administrative expenses	(598)	(690)	(1,770)	(1,959)
Marketing and promotion expenses	(105)	(615)	(1,101)	(1,891)
Staff costs	(585)	(533)	(1,675)	(1,579)
Profit from operations	342	28	768	126
Taxation	(1) -	-	-	-
Net profit for the period	342	28	768	126
Earnings per share – basic	(2) 0.228 cents	0.019 cents	0.512 cents	0.084 cents

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 and nine months ended 31 March 2005 is based on the respective unaudited net profit for the period of HK\$342,000 and HK\$768,000 (2004: HK\$28,000 and HK\$126,000) 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 not in issue any securities with potential dilutive effect in the periods.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the quarter ended 31 March 2005 (2004: NIL).

FINANCIAL AND BUSINESS REVIEW

For the nine months ended 31 March 2005, the Group recorded a turnover of HK\$5,300,000, compared with HK\$6,401,000 in the corresponding period of last year. Net profit for the period was HK\$768,000, a significant improvement compared with HK\$126,000 of last year. Earnings per share for the nine-month period was HK0.512 cents per share, compared with HK0.084 cents per share. Turnover and net profit for the three months ended 31 March 2005 were HK\$1,622,000 and HK\$342,000 respectively, compared with the previous year's corresponding figures of HK\$2,032,000 and HK\$28,000.

The results reflected persistent efforts of management in optimising the Group's operational efficiency in a very competitive environment, notwithstanding an improvement in demand for IT services in general. Overall operating costs for the nine-month period were reduced by 28 percent to HK\$4,546,000 compared with HK\$6,303,000 of the previous corresponding period, with notable savings in marketing and promotion expenses as well as in acquired technology expensed. The Group's financial position remains liquid and healthy with 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. However, in light of the challenging conditions common in the e-commerce industry, the Group has adopted a conservative approach in rolling out its business plans.

OUTLOOK

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

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 March 2005, 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.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 March 2005, 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 the required standard of dealings by directors of listed issuer as referred to in 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>	28.44%	<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:

1. 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 March 2005, Lawnside had interests in approximately 28.44% 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. 350,601,078 shares and 66,054,182 warrants were held by Lawnside. The warrants were issued by Champion pursuant to a bonus issue effected in February 2005, all of which will be expired on 16 February 2006.
3. 1,348,420,962 shares were held by Champion and 407,779,752 shares were held by Lawnside.

Save as disclosed above, as at 31 March 2005, 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 (within the meaning of Part XV of the SFO) which was recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or which would have to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuer as referred to in Rule 5.46 of the GEM Listing Rules.

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 March 2005, the following persons (other than a director or chief executive of the Company disclosed under “Directors’ Interests and Short Positions in Securities” section) had interests in the share capital 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%
Lawnside	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, which was recorded in the register required to be kept under Section 336 of the SFO as at 31 March 2005.

COMPETING INTERESTS

None of the directors or the management shareholders and their respective associates 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 nine months ended 31 March 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

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, namely 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 quarterly results of the Company for the nine months ended 31 March 2005 together with this quarterly report have been reviewed by the audit committee.

By order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 29 April 2005

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