



DIGITALHONGKONG.COM

2005/2006

Interim Report

www.digitalhongkong.com

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 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 2005

HIGHLIGHTS

- Total turnover HK\$3,755,000
- Profit for the period HK\$543,000
- No interim dividend is recommended for the period

The board of directors (the “Board”) of DIGITALHONGKONG.COM (the “Company” or “Digital HK”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the three and six months ended 31 December 2005 together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2005

	Notes	Three months ended		Six months ended	
		31 December		31 December	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	(3)				
Service income		2,264	2,003	3,755	3,678
Other income		29	5	52	6
Acquired technology expensed		(156)	–	(156)	–
General and administrative expenses		(981)	(668)	(1,575)	(1,172)
Marketing and promotion expenses		(105)	(498)	(245)	(996)
Staff costs		(729)	(608)	(1,288)	(1,090)
Profit before taxation		322	234	543	426
Taxation	(5)	–	–	–	–
Profit for the period attributable to equity holders of the Company		322	234	543	426
Earnings per share - basic	(6)	0.215 cents	0.156 cents	0.362 cents	0.284 cents

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	31 December 2005	30 June 2005
<i>Notes</i>	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Non-current assets		
Property, plant and equipment	1	1
Systems and networks	162	487
Interest in an associate	312	312
	<hr/> 475	<hr/> 800
Current assets		
Trade receivables	3,735	3,873
Deposits and prepayments	3,651	4,353
Amount due from a fellow subsidiary	38	76
Deposits, bank balances and cash	10,690	9,154
	<hr/> 18,114	<hr/> 17,456
Current liabilities		
Other payables and accrued charges	479	689
	<hr/> 17,635	<hr/> 16,767
Net current assets	<hr/> 17,635	<hr/> 16,767
Net assets	<hr/> 18,110	<hr/> 17,567
Capital and reserves		
Share capital	15,000	15,000
Reserves	3,110	2,567
	<hr/> 18,110	<hr/> 17,567
Equity attributable to equity holders of the Company	<hr/> 18,110	<hr/> 17,567

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 31 December 2005*

	Attributable to equity holders of the Company				
	Share capital <i>HK\$'000</i> (Unaudited)	Capital reserve <i>HK\$'000</i> (Unaudited)	Share premium <i>HK\$'000</i> (Unaudited)	Accumulated losses <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
At 1 July 2004	15,000	7,540	8,461	(14,674)	16,327
Profit for the period	—	—	—	426	426
At 31 December 2004 and 1 January 2005	15,000	7,540	8,461	(14,248)	16,753
Profit for the period	—	—	—	814	814
At 30 June 2005 and 1 July 2005	15,000	7,540	8,461	(13,434)	17,567
Profit for the period	—	—	—	543	543
At 31 December 2005	15,000	7,540	8,461	(12,891)	18,110

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 31 December 2005*

	Six months ended 31 December	
	2005 <i>HK\$'000</i> (Unaudited)	2004 <i>HK\$'000</i> (Unaudited)
Net cash from operating activities	1,484	1,664
Net cash from/(used in) investing activities	52	(306)
Net increase in cash and cash equivalents	1,536	1,358
Cash and cash equivalents at beginning of the period	9,154	4,868
Cash and cash equivalents at end of the period, represented by deposits, bank balances and cash	10,690	6,226

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*For the six months ended 31 December 2005***1. Basis of preparation**

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard (the “HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30 June 2005.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. 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 electronic payment processing platform and provision of software licensing services.

	Three months ended		Six months ended	
	31 December		31 December	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Provision of secured electronic payment processing platform	1,476	1,340	2,179	2,235
Provision of software licensing services	788	663	1,576	1,443
	<u>2,264</u>	<u>2,003</u>	<u>3,755</u>	<u>3,678</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.

4. Amortisation and depreciation

During the three-month and six-month period ended 31 December 2005, amortisation and depreciation of HK\$163,000 and HK\$325,000 (2004: HK\$163,000 and HK\$327,000) is charged respectively 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 estimated assessable profit was wholly absorbed by tax losses brought forward.

6. Earnings per share

The calculation of the basic earnings per share for the three months and six months ended 31 December 2005 is based on the respective unaudited profit for the period of HK\$322,000 and HK\$543,000 (2004: HK\$234,000 and HK\$426,000) and on the number of 150,000,000 shares in issue throughout the periods.

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

7. Interest in an associate

	31 December 2005 HK\$'000 (Unaudited)	30 June 2005 HK\$'000 (Audited)
Share of net assets	31	31
Amount due from an associate	281	281
	312	312

The Group holds a 40% interest in the issued capital in Belcher Technology Limited, 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 the next twelve months from the balance sheet date. Accordingly, the said amount is shown as a non-current asset.

8. Trade receivables

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

	31 December 2005 HK\$'000 (Unaudited)	30 June 2005 HK\$'000 (Audited)
0-60 days	2,061	2,664
61-120 days	1,263	51
Over 120 days	411	1,158
	3,735	3,873

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 2005 HK\$'000 (Unaudited)	30 June 2005 HK\$'000 (Audited)
Capital expenditure in respect of the acquisition of property, plant and equipment, systems and networks authorised but not contracted for	500	500

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2005 (2004: Nil).

FINANCIAL AND BUSINESS REVIEW

For the six-month period ended 31 December 2005, the Group recorded a turnover of HK\$3,755,000, compared with HK\$3,678,000 for the corresponding period last year. Profit for the period was HK\$543,000, compared with that of HK\$426,000 for last year. The turnover of the Group for the quarter ended 31 December 2005 was HK\$2,264,000, compared with HK\$2,003,000 recorded in the previous corresponding period.

Earnings per share for the six-month period was HK0.362 cents, compared with HK0.284 cents of last corresponding period.

The Group continued to benefit from an improving economy and a steadily growing customer base attracted by its e-commerce solutions and services. Service fees derived from the Group's technical solutions remained the primary source of income for the Group.

During the period, the Group continued its development efforts in new solutions. Total operating costs remained steady at HK\$3,264,000 compared with HK\$3,258,000 in the previous corresponding period. While general and administrative expenses increased by 34 percent to HK\$1,575,000, and staff costs rose 18 percent to HK\$1,288,000, savings continued to be achieved in marketing and promotion expenses, resulting in a reduction of 75 percent to HK\$245,000 for the period.

As at 31 December 2005, the Group's financial position remained liquid, and did not have any bank borrowings. It financed its operations primarily with internally generated cashflows.

Meanwhile, the Group's strategic investment in a bioinformatics project which focused on developing customised database design tools targeted at empowering the process of drug recovery is making steady progress.

OUTLOOK

In spite of the gradual economic recovery and increasing optimism on the general operating environment, management is aware that the IT industry remains intensely competitive, and pricing pressure 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. The investment in 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2005, the equity attributable to equity holders of the Company amounted to approximately HK\$18,110,000. Current assets amounted to approximately HK\$18,114,000, of which approximately HK\$10,690,000 were deposits, bank balances and cash. The Group had no non-current liabilities, and its current liabilities amounted to approximately HK\$479,000 made up mainly of other payables and accruals arising in the normal course of operations.

The Group did not have any bank borrowings as at 31 December 2005. The Group financed its operations primarily with internally generated cashflows. As at 31 December 2005, the Group did not have any material contingent liabilities nor any charges on its assets. With net current assets of HK\$17,635,000, 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 the equity attributable to equity holders of the Company, was nil.

As at 31 December 2005, the Group's capital commitments authorised but not contracted for was HK\$500,000 (30 June 2005: HK\$500,000). 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 would 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 2005. During the period under review, 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\$1,288,000. Remuneration is determined with 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 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>	28.00%	<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>	67.50%	–

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 2005, Lawnside had interests in approximately 28.00% 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.
- 357,813,876 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.
- 1,419,690,962 shares were held by Champion and 407,779,752 shares were held by Lawnside.

Save as disclosed above, as at 31 December 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 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 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 December 2005, the following persons (other than a director or chief executive of the Company whose interests are 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%

* 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 December 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 any business or interest which competes or may compete with the business of the Group nor any other conflicts of interest with the Group during the period under review.

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

During the six months ended 31 December 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code on Corporate Governance Practices, as set out in Appendix 15 of the GEM Listing Rules at any time during the six months ended 31 December 2005.

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. 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 2005.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management of the Group the accounting principles and practices adopted by the Group, its internal controls and financial reporting matters and the above unaudited interim report of the Group for the six months ended 31 December 2005.

By order of the Board
Paul KAN Man Lok
Chairman

Hong Kong, 9 February 2006

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