

2008/09 DigitalHongKong.com
interim report

ABOUT DIGITALHONGKONG.COM (STOCK CODE: 8007)

DIGITALHONGKONG.COM (“Digital HK”) has been listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Exchange”) since April 2000. Started as a commerce service provider (CSP) that specialised in providing outsourcing services for online commerce, Digital HK has strategically positioned itself to integrate both online and offline businesses, 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, the holding company of a communications software group listed on the Main Board of the Exchange.

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE EXCHANGE

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 2008

Summary

The Group's unaudited consolidated loss for the six months ended 31 December 2008 was HK\$669,000, compared with a loss of HK\$240,000 for the previous corresponding period. No interim dividend is recommended for the period.

The Group's financial position remains positive with no bank borrowings.

The board of directors (the "Board") of DIGITALHONGKONG.COM (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and six months ended 31 December 2008 with the comparative unaudited figures for the corresponding periods in 2007 as follows:

Consolidated Income Statement (Unaudited)

For the six months ended 31 December 2008

		Three months ended 31 December		Six months ended 31 December	
	Notes	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	(2)				
Service income		823	1,254	1,828	2,459
Other income		33	116	74	262
Acquired technology expensed		(39)	(19)	(39)	(39)
General and administrative expenses		(553)	(586)	(1,046)	(1,061)
Depreciation		(2)	(2)	(4)	(4)
Marketing and promotion expenses		(63)	(62)	(118)	(119)
Staff costs		(620)	(925)	(1,364)	(1,738)
Loss before taxation		(421)	(224)	(669)	(240)
Taxation	(3)	-	-	-	-
Loss for the period attributable to equity holders of the Company		(421)	(224)	(669)	(240)
Loss per share – basic	(4)	HK(0.281) cents	HK(0.149) cents	HK(0.446) cents	HK(0.160) cents

Consolidated Balance Sheet

At 31 December 2008

	Note	As at 31 December 2008 HK\$'000 (Unaudited)	As at 30 June 2008 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		12	17
Interest in an associate		—	—
		<u>12</u>	<u>17</u>
Current assets			
Trade and other receivables	(5)	2,296	2,111
Amount due from a fellow subsidiary		5	36
Deposits, bank balances and cash		15,636	16,714
		<u>17,937</u>	<u>18,861</u>
Current liabilities			
Other payables		687	934
Amount due to a fellow subsidiary		—	13
		<u>687</u>	<u>947</u>
Net current assets		<u>17,250</u>	<u>17,914</u>
Net assets		<u>17,262</u>	<u>17,931</u>
Capital and reserves			
Share capital		15,000	15,000
Reserves		2,262	2,931
Equity attributable to equity holders of the Company		<u>17,262</u>	<u>17,931</u>

Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 31 December 2008

	Attributable to equity holders of the Company				
	Share capital HK\$'000	Capital reserve HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2007	15,000	7,540	8,461	(12,084)	18,917
Loss for the period and total recognised expenses	—	—	—	(240)	(240)
At 31 December 2007	15,000	7,540	8,461	(12,324)	18,677
Loss for the period and total recognised expenses	—	—	—	(746)	(746)
At 30 June 2008	15,000	7,540	8,461	(13,070)	17,931
Loss for the period and total recognised expenses	—	—	—	(669)	(669)
At 31 December 2008	15,000	7,540	8,461	(13,739)	17,262

Condensed Consolidated Cash Flow Statement (Unaudited)

For the six months ended 31 December 2008

	Six months ended 31 December	
	2008 HK\$'000	2007 HK\$'000
Net cash used in operating activities	(1,145)	(552)
Net cash from investing activities	67	262
Net decrease in cash and cash equivalents	(1,078)	(290)
Cash and cash equivalents at beginning of the period	16,714	17,048
Cash and cash equivalents at end of the period, represented by deposits, bank balances and cash	15,636	16,758

Notes to the Condensed Consolidated Financial Statements

For the six months ended 31 December 2008

1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis and in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and 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.

The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 30 June 2008.

2. Turnover and segment information

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

	Three months ended 31 December		Six months ended 31 December	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Provision of secure electronic payment processing platform	628	864	1,438	1,679
Provision of software licensing and technical services	195	390	390	780
	<u>823</u>	<u>1,254</u>	<u>1,828</u>	<u>2,459</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 and Macau.

3. Taxation

No provision for Hong Kong Profits Tax has been made for the periods as the estimated assessable profit was wholly absorbed by tax losses carried forward.

4. Loss per share

The calculation of loss per share for the three months and six months ended 31 December 2008 is based on the respective unaudited consolidated loss for the periods of HK\$421,000 and HK\$669,000 (2007: HK\$224,000 and HK\$240,000 respectively) and 150,000,000 (2007: 150,000,000) shares in issue throughout the periods.

5. Trade and other receivables

	As at 31 December 2008 HK\$'000 (Unaudited)	As at 30 June 2008 HK\$'000 (Audited)
Trade receivables	2,120	1,984
Other receivables	176	127
	<u>2,296</u>	<u>2,111</u>

The Group allows an average credit period of 90 days for its trade customers depending on their credit worthiness, nature of services and condition of the market. The aging analysis of trade receivables at the balance sheet date is as follows:

	As at 31 December 2008 HK\$'000 (Unaudited)	As at 30 June 2008 HK\$'000 (Audited)
0 – 60 days	810	1,196
61 – 120 days	995	788
> 120 days	315	–
	<u>2,120</u>	<u>1,984</u>

Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2008 (2007: Nil).

Financial and Business Review

The period under review saw the rapid deterioration of the economy and business climate, with customers delaying or scaling back expenditure on IT. The Group's performance continued to be impacted by the generally cautious market sentiment.

For the six-month period ended 31 December 2008, the Group recorded a turnover of HK\$1,828,000, compared with HK\$2,459,000 for the corresponding period of previous year. Turnover for the quarter ended 31 December 2008 was HK\$823,000, compared with HK\$1,254,000 for the last corresponding period. Loss for the six-month period was HK\$669,000, compared with a loss of HK\$240,000 for the last corresponding period. The lower turnover for the period under review reflected a combination of softening economy, a highly competitive market and the Group's conscious effort to preserve its margins by continuing to focus on customised solutions in e-commerce. Total operating costs were reduced by 13 percent to HK\$2,571,000 as a result of the Group's streamlining of human resources in line with market conditions and level of business activities.

The Group's financial position remained positive, and did not have any bank borrowings as at 31 December 2008. It financed its operations primarily by internally generated cashflows.

Outlook

Against economic and market uncertainties that are likely to persist for a protracted period, the Group will adopt a conservative approach in rolling out its business plans. Efforts on cost management and efficiency improvement will be strengthened. Meanwhile, the Group will prudently pursue suitable investment opportunities with a view to creating value for its shareholders.

Liquidity and Financial Resources

As at 31 December 2008, the Group had current assets of approximately HK\$17,937,000, which comprised mainly deposits, bank balances and cash of approximately HK\$15,636,000. The Group had no non-current liabilities, and its current liabilities amounted to approximately HK\$687,000, consisting mainly of payables arising in the normal course of operation.

The Group did not have any bank borrowings as at 31 December 2008. The Group financed its operations primarily with internally generated cashflows. As at 31 December 2008, the Group did not have any material contingent liabilities or charges on its assets. With net current assets of HK\$17,250,000, the Group was in a financially liquid position at the end of the period under review. The Group's gearing ratio, based on the Group's total borrowings which were nil, and equity attributable to equity holders of the Company of approximately HK\$17,262,000, was nil.

The directors of the Company consider that the Group's financial resources are sufficient for its operation. If necessary, the Board would consider either debt or equity financing, or both, for business development, especially when appropriate business opportunities are identified and market conditions are favourable.

During the period, the Group made no acquisition or disposal of subsidiaries or affiliated companies.

Capital Commitments

As at 31 December 2008, the Group's capital commitments authorised but not contracted for was HK\$500,000 (30 June 2008: HK\$500,000). These commitments were set aside for the acquisition of property, plant and equipment, and development of systems and networks.

Exposure to Exchange Rate Fluctuations

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.

Human Resources and Remuneration Policy

During the period under review, the Group employed 10 full-time staff members. Staff costs for the period under review were HK\$1,364,000 (2007: HK\$1,738,000). Remuneration is determined with reference to market terms and the performance, qualifications, and experience of the individual employee. Remuneration includes monthly salaries, performance-linked bonuses, share options, retirement benefits under the Mandatory Provident Fund Scheme, and other benefits such as medical scheme.

Directors' Interests and Short Positions in Securities

As at 31 December 2008, 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 "Exchange") pursuant to the required standard of dealings by the directors of the Company as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Exchange (the "GEM Listing Rules") were as follows:

Long positions:

Name of director	Capacity	Number of shares	Approximate percentage of the issued share capital	Number of convertible securities
<i>Securities of the Company</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 1	79.98%	–
<i>Securities of Champion Technology Holdings Limited ("Champion", the Company's ultimate holding company)</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 2	26.06%	Note 2
<i>Securities of Kantone Holdings Limited ("Kantone", a subsidiary of Champion)</i>				
Mr. Paul Kan Man Lok	Corporate interest	Note 3	50.59%	Note 3

Notes:

- 117,300,000 shares of the Company were held by Champion and 2,669,171 shares of the Company were held by Lawnside International Limited ("Lawnside"). Lawnside is beneficially wholly owned by Mr. Paul Kan Man Lok. As at 31 December 2008, Lawnside had interests in approximately 26.06% of the entire issued share capital of Champion. Mr. Paul Kan Man Lok was deemed to have corporate interest in the shares of the Company owned by Champion and Lawnside.

2. 514,491,761 shares and 100,701,319 units of warrants of Champion were held by Lawnside. The warrants will expire on 16 April 2009. Lawnside also held a HK\$188,553,096.27 convertible redeemable bond of Champion carrying the right to convert the principal amount of the bond or any part thereof into shares of Champion from 19 September 2008 to 19 September 2010 or, at the option of Champion, extended to 19 September 2011 at the conversion price per share of the higher of (i) HK\$1.09; and (ii) the volume-weighted average price of shares of Champion for the 10 dealing days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.80. These warrants and the bond have not been taken into account in calculating the percentage of the issued share capital of Champion held by Lawnside.
3. 2,039,491,502 shares and 300,278,027 units of warrants of Kantone were held by Champion while 82,058,443 units of warrants of Kantone were held by Lawnside. These warrants expired on 8 January 2009 and have not been taken into account in calculating the percentage of the issued share capital of Kantone held by them.

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 2008 as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by the directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

Substantial Shareholders

As at 31 December 2008, the following person (other than the directors or chief executive of the Company) 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	Approximate percentage of the issued share capital
Champion	Long	Beneficial owner	117,300,000*	78.20%

* See Note 1 to the "Directors' Interests and Short Positions in Securities" Section above.

Other than as disclosed above, no person had any interests or short positions in the shares or underlying shares of the Company according to the register required to be kept under Section 336 of the SFO as at 31 December 2008.

Competing Interests

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had an interest in a business which competed or might compete with the business of the Group or any other conflict of interests 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 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Code on Corporate Governance Practices

During the six months ended 31 December 2008, none of the directors of the Company was aware of any information which would reasonably indicate that the Company was not in compliance with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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 of the Company, result of which indicates that the directors have complied with such code of conduct throughout the six months ended 31 December 2008.

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 this interim report.

By Order of the Board

Shirley HA Suk Ling

Director

Hong Kong, 21 January 2009



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