



MegaInfo Holdings Limited 萬佳訊控股有限公司

(Incorporated in Bermuda with limited liability)

First Quarterly Report 2006



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This report, for which the directors of MegalInfo Holdings Limited (“Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company (“Directors”), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



HIGHLIGHTS

- Turnover for the Three-Month Period amounted to approximately HK\$5.2 million (2004: HK\$4.9 million), representing an increase of approximately 5.3% over corresponding period during 2004.
- Loss attributable to shareholders recorded at approximately HK\$2.3 million.
- Successfully secured more projects from hotel operator and the Government of Macao.
- Entered into an agreement with Beijing Redflag to develop the Traditional Chinese version of the Red Flag Linux operating system.
- The Board does not recommend the payment of an interim dividend for the Three-Month Period.



FIRST QUARTER RESULTS

The board of Directors ("Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30th September, 2005 ("Three-Month Period"), together with the comparative unaudited figures of the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

		Three months ended 30th September	
	<i>Note</i>	2005 HK\$	2004 HK\$
Turnover	1	5,170,115	4,909,699
Cost of sales		(4,279,727)	(3,807,160)
Gross profit		890,388	1,102,539
Other revenue		34,557	1,704
Selling and administrative expenses		(3,236,920)	(2,578,866)
Loss attributable to shareholders		(2,311,975)	(1,474,623)
Basic loss per share	4	0.432 cents	0.276 cents

Notes:

(1) Turnover

Turnover represents the net amounts received and receivable from sale of computer software products and provision of digital image processing management solutions and maintenance services by the Group in the Macao Special Administration Region of PRC ("Macao") and the People's Republic of China, other than the region of the Hong Kong Special Administration Region of the PRC ("Hong Kong"), Macao and Taiwan ("PRC").

(2) Taxation

No provision for profits tax has been made in the accounts as the Group has no estimated assessable profits in the jurisdictions in which the Group operates for the both periods ended 30th September, 2004 and 2005.

(3) Dividend

The Board does not recommend the payment of an interim dividend for the Three-Month Period (2004: Nil).

(4) Basic loss per share

The calculation of loss per share for the Three-Month Period is based on the unaudited net loss of HK\$2,311,975 (2004: HK\$1,474,623) and 535,000,000 (2004: 535,000,000) shares in issue during the period.

Diluted loss per share has not been disclosed as there were no potential dilutive ordinary shares.

(5) Share capital and reserves

	Share capital HK\$	Share premium HK\$	Exchange reserve HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 1st July, 2005 (audited)	5,350,000	20,576,560	(73,454)	11,108,399	(29,210,533)	7,750,972
Exchange differences in Transaction of accounts of overseas subsidiaries	-	-	77,099	-	-	77,099
Loss attributable to shareholders	-	-	-	-	(2,311,975)	(2,311,975)
At 30th September, 2005	5,350,000	20,576,560	3,645	11,108,399	(31,522,508)	5,516,096
At 1st July, 2004 (audited)	5,350,000	20,576,560	(42,978)	11,108,399	(6,588,899)	30,403,082
Exchange differences in Transaction of accounts of overseas subsidiaries	-	-	(11,076)	-	-	(11,076)
Loss attributable to shareholders	-	-	-	-	(1,474,623)	(1,474,623)
At 30th September, 2004	5,350,000	20,576,560	(54,054)	11,108,399	(8,063,522)	28,917,383

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review – Macao

Since the last annual report released in September 2005, the Group has been striving to complete the scheduled projects and continuing to explore new businesses. Major projects completed during the Three-Month Period included the installation of a PABX system and a surveillance system for a shooting range, that hosted the shooting event of the East Asian Games, and for a football stadium of the Macao University of Science and Technology, and a PABX system for the Judiciary Police of Macao, turnover (approximately HK\$4.6 million) of which has been reflected in the period under review. Other major projects such as gaming application for the East Asian Games, automatic vehicle clearance system and automatic passenger clearance system for the Government of Macao have also been successfully completed and delivered. Business revenue of these projects will be accounted for in the next quarterly results announcement.

The Group's marketing activities in Macao remain active. The Group has recently secured an extra-low voltage contract involving approximately HK\$3.1 million from a hotel at a new attraction in Macao. Discussions and negotiations with other hotels are currently in progress. The Group is optimistic that its marketing strategies and business steering towards the hospitality sector will generate favorable returns in the future.

The Group has built up its reputation in Macao in the government services domain. Leveraging its experience in the one-stop project, the Group has successfully obtained from the Government of Macao the contract for the second phase of the e-government project during the period under review. In the same period, the Group has also been commissioned by the Justice Bureau of Macao to provide the *Megalmage* solution, the first *Megalmage* project secured by the Group in Macao.

The Group believes that all these on-going projects contribute significantly to the building up and maintaining of the Group's business relationship with its customers. While project implementation and system installation are the major source of revenue of the Group, management anticipates future income can also be generated from taking up expansion projects as the business volume and size of existing customers increased and providing maintenance services for completed projects. Striving to secure maintenance contracts will be a focus area for the Group as maintenance income represents stable and recurring income.

Business Review – PRC

During the Three-Month Period, the Group has successfully secured several service contracts from various bureaus of China Telecom and China Mobile in the Guangdong Province with total worth of RMB2.5 million (approximately HK\$2.4 million) being awarded. This is a result of its continued marketing efforts over the past 6 months to promote *Megalmage* and the successful completion of various *Megalmage* projects for various bureaus of China Mobile in the Guangdong Province.

On 23rd September, 2005, the Group entered into an agreement with Red Flag Software Company Limited (“Beijing Redflag”) to jointly develop the Traditional Chinese version (for Hong Kong and Macao) of the Red Flag Linux operating system. This agreement has also allowed the Group to become a strategic partner of Beijing Redflag which is an important breakthrough in its business development in the PRC as it provides the Group with the opportunity to tap the relationship network of Beijing Redflag. Details of the cooperation between the two parties are currently under discussion.

Financial Position and Operating Performance Review

During the Three-Month Period, the Group had registered HK\$5.2 million turnover, which included the completed projects in a shooting range centre, a football stadium, and the Judiciary Police of Macao. Compared with the same period in the previous financial year, the growth in turnover was slightly increased by 5.3%. The gross profit percentage for the Three-Month Period was 17.2%, which is slightly lower than the same period in previous financial year. But indeed, the 17.2% gross profit percentage during the Three-Month Period was improved when compared with 2005 financial year average gross profit percentage of 15.1%.

The net loss of the Group during the Three-Month Period was HK\$2.3 million. The net loss was mainly due to the several major projects were at the final stage, thus the results have not been reflected in the results of the Three-Month Period. As mentioned in the 2005 annual report, the Group had secured approximately HK\$46 million business for 2006 financial year. The Group is confident that the results of the coming quarters would improve.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE BONDS

At 30th September, 2005, the interests and short positions of the Directors and the chief executives and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules, were as follows:

(i) Long position in ordinary shares of the Company and (in respect of equity derivatives) underlying shares

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. José Manuel dos Santos	Held by controlled corporation (<i>Note</i>)	326,617,500	61.05%

Note: 326,617,500 shares were beneficially owned by Vodatel Holdings Limited ("VHL"). VHL was a wholly-owned subsidiary of Vodatel Networks Holdings Limited ("VNHL"). Eve Resources Limited ("ERL") owned more than one-third of the issued share capital of VNHL and the entire issued share capital in ERL was in turn held by a company wholly-owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust. Mr. José Manuel dos Santos was deemed to be interested in 326,617,500 shares held by VHL.

(ii) Aggregate long positions in shares of the associated corporation, VNHL and (in respect of equity derivatives) underlying VNHL shares

Name of Director	Capacity	Number of issued ordinary shares held in VNHL	Number of underlying VNHL Shares (in respect of share option and convertible bond) held	Percentage of the issued share capital of VNHL
Mr. José Manuel dos Santos	Held by trust (Note 1)	293,388,000	–	47.80%
	Beneficial owner (Note 2)	–	600,000	0.10%
Mr. Kuan Kin Man	Beneficial owner (Note 3)	12,262,500	900,000	2.14%
Mr. Yim Hong	Beneficial owner (Note 4)	7,357,500	900,000	1.35%
Mr. Mok Chi Va	Held by spouse/ Beneficial owner (Note 5)	20,000	230,000	0.04%

Notes:

- (1) These VNHL shares were held in the name of ERL and the entire issued share capital in ERL was in turn held by a company wholly-owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust.
- (2) Mr. José Manuel dos Santos was the beneficial owner of such interest in VNHL shares.
- (3) Mr. Kuan Kin Man was the beneficial owner of such interest in VNHL shares.
- (4) Mr. Yim Hong was the beneficial owner of such interest in VNHL shares.
- (5) The 20,000 VNHL shares was held by the spouse of Mr. Mok Chi Va and Mr. Mok Chi Va was deemed to be interested in such VNHL shares. Mr. Mok Chi Va was the beneficial owner of the remaining interest in VNHL shares.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30th September, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors and chief executives or their associates, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital or underlying shares of the Company who would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, were as follows:

Long positions in ordinary shares of the Company and (in respect of equity derivatives) underlying shares

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of issued share capital of the Company
Lois Resources Limited	Held by controlled corporation (<i>Note 1</i>)	326,617,500	61.05%
ERL	Held by controlled corporation (<i>Note 1</i>)	326,617,500	61.05%
VNHL	Held by controlled corporation (<i>Note 1</i>)	326,617,500	61.05%
VHL	Beneficial owner (<i>Note 1</i>)	326,617,500	61.05%
Ms. Lei Hon Kin	Held by spouse (<i>Note 2</i>)	326,617,500	61.05%
Gofull Investment Limited ("Gofull")	Beneficial owner (<i>Note 3</i>)	74,632,500	13.95%
eForce Holdings Limited ("eForce")	Held by controlled corporation (<i>Note 3</i>)	74,632,500	13.95%
Tees Corporation ("Tees")	Held by controlled corporation (<i>Note 3</i>)	74,632,500	13.95%
Mr. Leung Chung Shan	Held by controlled corporation (<i>Note 3</i>)	74,632,500	13.95%

Notes:

- (1) Lois Resources Limited was deemed to be interested in 326,617,500 shares by virtue of its interest in ERL. ERL owned more than one third of the issued share capital of VNHL which in turn owned the entire issued share capital of VHL. 326,617,500 shares were beneficially owned by VHL.
- (2) Ms. Lei Hon Kin, the spouse of Mr. José Manuel dos Santos, was deemed to be interested in 326,617,500 shares which were deemed to be interested by Mr. José Manuel dos Santos.
- (3) eForce was deemed to be interested in 74,632,500 shares by virtue of its interest in Gofull. Tees owned more than one third of the issued share capital of eForce. Mr. Leung Chung Shan owned the entire issued share capital of Tees. 74,632,500 shares were beneficially owned by Gofull.

AUDIT COMMITTEE

The Company has established an audit committee ("Committee") with written term of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation.

The Committee comprises three independent non-executive Directors, namely Mr. Chui Sai Cheong, Mr. Tsui Wai Kwan and Mr. Tam Pak Yip. Mr. Chui Sai Cheong is the chairman of the Committee.

The Group's financial statements for the Three-Month Period have been reviewed by the Committee who was of the opinion that such financial statements complied with applicable accounting standards, the GEM Listing Rules, and that adequate disclosures had been made.

SPONSOR'S INTEREST

Pursuant to the agreement dated 30th December, 2003 entered into between the Company and the joint sponsors, namely REXCAPITAL (Hong Kong) Limited ("RexCapital") and CSC Asia Limited ("CSC Asia"), the joint sponsors have received and will receive a fee for acting as the Company's retained sponsors for the period from 19th January, 2004 to 30th June, 2006.

On 28th July, 2004, due to the major personnel changes at RexCapital, the Company and RexCapital have mutually agreed to terminate the engagement of RexCapital as one of the continuing sponsors to the Company with effect from 1st August, 2004.

CSC Asia will continue to act as the continuing sponsor to the Company pursuant to Chapter 6 of GEM Listing Rules for the period up to 30th June, 2006.

None of CSC Asia and their directors, employees or associates had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30th September, 2005.

INTERESTS IN COMPETING BUSINESS

None of the Directors or any person who is (or group of persons who together are) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who is (or are) able, as a practical matter, to direct or influence the management of the Company had an interest in a business, which competes or may compete with the business of the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Three-Month Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less than exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the Three-Month Period. Having made specific enquiry of all Directors, they have complied with such code of conduct and the required standard of dealings throughout the Three-Month Period.

By order of the Board
MegaInfo Holdings Limited
José Manuel dos Santos
Chairman

Hong Kong, 14th November, 2005