

MegaInfo Holdings Limited

萬佳訊控股有限公司

(incorporated in Bermuda with limited liability)



ANNUAL REPORT 2004

CHARACTERISTICS OF GEM

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 further 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 stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM 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.

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2 CORPORATE INFORMATION

Board of directors

Executive Directors

José Manuel dos Santos
Mok Chi Va
Kuok Cheong Ian

Non-executive Directors

Yim Hong
Kuan Kin Man

Independent non-executive Directors

Chui Sai Cheong
Tsui Wai Kwan
Tam Pak Yip

Authorized representatives

Mok Chi Va
Wong Chit Lung Philip, CPA

Company secretary

Wong Chit Lung Philip, CPA

Qualified accountant

Wong Chit Lung Philip, CPA

Compliance officer

Mok Chi Va

Audit committee

Chui Sai Cheong (*Chairman*)
Tsui Wai Kwan
Tam Pak Yip

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

Sponsor

CSC Asia Limited
Units 3204-07, 32/F
COSCO Tower
183 Queen's Road Central
Hong Kong

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office & principal place of business

1st Floor
Edf. Vodatel
74 Rua da Felicidade
Taipa, Macao
Tel: (853) 722131
Fax: (853) 347063

Place of business in Hong Kong

Unit 1418, 14th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong
Tel: (852) 2587 8628
Fax: (852) 2587 8380

Website

<http://www.megainfo.com.cn>

Bankers

Banco Comercial de Macau
Seng Heng Bank Limited
Standard Chartered Bank (Hong Kong) Limited

Share registrars in Bermuda

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street
Hamilton HM 11
Bermuda

Share registrars in Hong Kong

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

Stock code

8279

COMPANY PROFILE

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Headquartered in Macao, MegalInfo Holdings Limited is a subsidiary of GEM-listed VNHL. Engaged in the provision of enterprise solutions for targeted customers in Macao and the PRC, the Group specializes in the research and development of innovative and quality value-added applications that aim to increase operating effectiveness and efficiencies of enterprises. The Company offers an array of enterprise solutions including *MegaImage* (document imaging application), *MegaMax* (surveillance solution), *MegaDMS* (document management system), *MegaERP* (enterprise resource planning application) and *MegaECM* (effective communications management solution), and a range of services including installation, testing and commissioning, after-sales support and scanning services. Targeted customers of the Group include mobile service bureaus, telecommunications service providers, government authorities, hospitals and enterprises in Macao and the PRC.



CHAIRMAN'S STATEMENT



Mr. José Manuel dos Santos

On behalf of the Board, I am pleased to present to our shareholders the first annual report of the Group for financial year ended 30th June 2004.

FINANCIAL RESULTS

Albeit operating in a highly competitive environment, capitalizing on robust business activities in Macao, the Group reported total turnover of HK\$10.5 million for the financial year ended 30th June 2004. With the Group still at its growing stage, thus significant investment has to be made on research and development to create a series of "Mega" branded solutions and to establish a wide and efficient distribution network, the Group reported a net loss of HK\$6.6 million for the year.

BUSINESS REVIEW

During the year, we continued to enrich our product portfolio to better cater the needs of our targeted customers by:

- enhancing the features and functionalities of our existing solutions, such as incorporating bar code recognition and OCR on numbering to *MegaImage*;
- adding new applications to our portfolio of "Mega" branded solutions, such as *MegaDMS* and *MegaECM*; and
- integrating compatible applications to form complete and complementary solutions, such as integration of *MegaERP* and *MegaECM*.

In Macao, we are pleased that we successfully strengthened our tie with a very important customer – the Government of Macao, with contracts secured from IACM, and Polícia Judiciária, the police bureau. Not only have we built a reputation within the Government of Macao, thus allowing us to further penetrate into other departments, but also offered strong reference sites for future marketing and promotion of the Group's solutions to other customers.

In the PRC, to ensure that the applications of the Group are promoted and distributed via the most efficient channel, we continued to expand our distribution network by entering into alliances with reputable equipment vendors and collaboration arrangements with resellers. Today, our distribution network covers the northern, southern and eastern regions of the PRC.

BUILDING OUR FOUNDATION ON FOUR SIMPLE PRINCIPLES

To successfully compete in the enterprise market, we will continue to conduct our business based on four simple, but vital, principles:

Selection – To become the preferred provider of enterprise solutions, we will continue to expand and strengthen our product offerings by investing in our research and development teams for innovative value-added software applications. We will also integrate compatible and complementary applications, both in-house developed products and applications of external vendors, to form total solutions to increase the marketability of our products and to differentiate us from other players in the market.

Quality Services – We are committed to providing quality solutions and services to our customers. In addition to providing applications that best fit their requirements, we are also committed to providing smooth system commissioning and strong after-sales support services.

Value – Our customers base, comprising of mobile service bureaus, telecommunications service providers and government authorities, are our primary assets. Therefore, we are committed to providing optimal solutions and services to our customers at competitive prices.

Investing in People – People are the building blocks of the Group. Hence, we will continue to look for qualified and talented professionals to join us and provide opportunities for our staff to excel in their technical knowledge, encouraging them to participate in professional seminars or providing them with on-the-job training.

LOOKING AHEAD

MegalInfo is still at its growing stage. We will continue to work towards achieving our goal – to become a leading provider of enterprise solutions and a preferred and trusted partner of our customers by strengthening and expanding our product offerings with more and improved applications and creating a powerful distribution network for the products of the Group.

APPRECIATION

Finally, both the Board and I would like to take this opportunity to thank all our employees for their contribution to the Group's performance. We would also like to extend our gratitude to our customers for choosing the Group as your provider of enterprise solutions, and last but not least, to our shareholders for their continued support and confidence in the Group.

José Manuel dos Santos

Chairman

Hong Kong, 25th September, 2004

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REVIEW OF BUSINESS ACTIVITIES

Enriching Product Offerings

Determined to become the preferred provider of enterprise solutions, we have been expanding our product portfolio. We have been actively investing in the research and self development of value-added innovative products and identifying software applications from other vendors, the latter of which, where applicable, will be integrated with our existing products. The aim of these initiatives is to enable us to provide customers with total and complementary solutions that meet their specific needs.

Megalmage (renamed from *Vodalmage*) – We have completed the development of an upgraded version of *Megalmage*, incorporating additional functions such as multi-media document module, system mobile accessibility module, bar code recognition and OCR on numbering. With these added features, customers will be able to more flexibly capture images that contained not only letters but characters on a document. During the year, we completed the installation of *Megalmage* for Polícia Judiciária, the police bureau of the Government of Macao, allowing them to easily capture and store documents and images under a centralized management database and retrieve and process stored information at multiple locations.

In addition, we have completed the research and development of *MegaDMS*, which is a document management system that supports internet browser interface on Linux and Windows operating platforms. To further bolster product differentiation, we have integrated *Megalmage* into *MegaDMS*. This enhanced version of *MegaDMS* allows us to provide customers with a complete solution that supports file management systems on various platforms such as MSSQL, Oracle, DB2, etc. We are pleased to successfully secure and complete a contract to install the document imaging and management systems for IACM, the civil and municipal affairs bureau of the Government of Macao.

MegaMax (renamed from *VodaMax*) – To further enhance the security features of *MegaMax*, we are collaborating with the research and development team of the Zhongshan University on the localization of an image counting feature into the product. In addition, we are in the process of evaluating various facial recognition applications in the market to identify a solution with the best functions to complement *MegaMax*. *MegaMax*, with facial recognition and image counting features built-in, is particularly suitable for use by government departments and gaming operators for managing and controlling various security environment through cameras, monitors and controllers to capture images in motion, allowing remote intelligent monitoring and surveillance.

MegaERP – Amidst intense market competition, to differentiate ourselves from our competitors, besides adopting a platform with open interface, we have also entered into an alliance with Legend (Beijing) Limited (“Legend Beijing”), a wholly-owned subsidiary of Main Board listed Legend Group, to bundle our *MegaERP* application with Legend’s hardware and services to form an “IT1FOR1” solution. This partnership allows us to grow our business by leveraging on Legend’s established relationship networks in the PRC’s enterprise market while also offering us the opportunity to provide our customers with a complementary and integrated enterprise resource planning solution that contains both hardware equipment and software application.

MegaECM – During the year, we obtained from 北京炎黃新星網絡科技有限公司 the exclusive license to distribute their *ECM*. While *ECM* is itself a saleable application, allowing users to stay connected and alerted for messages anytime and anywhere, we have integrated *MegaECM* with *MegaERP* so as to provide enterprises with better and more efficient communication channels on a single platform.

Scanning Services – To complement the *MegaImage* application, we have established a scanning centre, the first of its kind in Macao, which provides scanning services to customers for capturing, indexing and storage of massive volume of documents. Targeted customers include government departments, public utility companies, banking and financial institutions and telecommunications service providers. ISO9001 accredited, the center offers services that meet the stringent quality requirements of its customers.

Enhancing Network Penetration

The ability to distribute enterprise solutions is crucial to the success of the Group, thus, considerable investment was made by the Group during the year to create a powerful distribution network that allows efficient promotion and marketing of the array of solutions offered by the Group.

Macao – Leveraging our strong roots in Macao, we continued to actively market our products to the Government of Macao. During the year, capitalizing on the business opportunities from the Government of Macao, we were awarded a HK\$11.3 million contract by IACM to deploy a one-stop e-government public service solution.

PRC – Riding on the established network of our parent company, VNHL, we continued to directly market our products to various local mobile service bureaus and telecommunications service providers. Furthermore, we entered into collaboration arrangements with five resellers for the distribution of *MegaImage* and ten resellers for the promotion and distribution of *MegaERP*. The Group's distribution network now spans the northern, southern and eastern regions of the PRC.

We have also been looking for strong local partners with established distribution network. In addition to the alliance with Legend Beijing, we are discussing with different equipment manufacturers about bundling their products with ours to form complete and complementary integrated solutions as a means to differentiate and strengthen our product offerings.

To support the distribution network of the Group in the PRC, a subsidiary and a centre to provide nationwide products and technical support were set up in Guangzhou, Guangdong Province and Beijing.

REVIEW OF OPERATING PERFORMANCE AND FINANCIAL POSITION

Turnover and Profitability

Attributable to strong business momentum in Macao, the Group's turnover derived from business activities in Macao accounted for 99.0% of the Group's total turnover of HK\$10.5 million. However, with a higher sales mix of hardware and related accessories, which carried lower margins than software, the Group reported gross profit margin of 27.8% for the year.

To expand the research and development centre and grow the Group's R&D and sales teams were the business objectives set by the Group when it was listed. Pursuing those objectives has resulted in an increase in headcounts and correspondingly staff costs during the year. Taking into account these investments and administrative expenses incurred from the listing of the Company, the Group's selling and administrative expenses surged to HK\$9.5 million, resulting in net loss of HK\$6.6 million.

During the year, the Group received deposits on certain secured contracts of approximately HK\$3.5 million, which if recognized as revenue during the year, would improve the Group's overall operating results.

Capital Resources and Liquidity

Net cash and bank balances as at 30th June 2004 were HK\$13.9 million. As at the date of this annual report, all receivables in the amount of approximately HK\$4.1 million had been received.

Total liabilities were HK\$7.9 million, translating to a gearing ratio (total liabilities over shareholders' funds) of approximately 26.1%.

Significant Investments

During the year, the Group established a subsidiary in Guangzhou, Guangdong Province to expand its channel marketing business and to provide products and technical support. Initial investment amounted to HK\$1.6 million.

Foreign Exchange Exposure

As at 30th June 2004, the Group held cash and bank deposits denominated in Hong Kong Dollars, Renminbi, and Macao Patacas. Since all of its revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted substantially in Renminbi, which is not freely convertible into foreign currencies, and in Macao Patacas, which is considered as a stable currency under the control of the Government of Macao, the Group faced minimal exchange rate risk during the year.

Net Assets

As at 30th June 2004, the Group's net assets amounted to HK\$30.4 million. There was no charge on the Group's assets as at 30th June 2004.

Contingent Liabilities

As at 30th June 2004, there were no material contingent liabilities.

Employees' Information

As at 30th June 2004, the Group had 49 employees in Hong Kong, Macao and the PRC. Total staff costs (excluding directors' emoluments) amounted to approximately HK\$3.8 million.

The Group's remuneration policies are formulated on the basis of performance and experience of individual employee and are in line with local market practices. In addition to the salary, the Group also offers to its employees other fringe benefits including provident fund and medical benefits.

COMPARISON OF BUSINESS OBJECTIVES

BUSINESS OBJECTIVES FOR THE YEAR UNDER REVIEW AS SET OUT IN THE PROSPECTUS

Research on a multimedia document module and a system mobile accessibility module for *Vodalimage* to enhance its features and functionalities

Finalise a licensing arrangement with an overseas supplier to represent its facial recognition module

Complete the integration of the facial recognition module with *VodaMax*

Commence the R&D of the integration of the imaging management module with *Mega-ERP/CRM* applications and upgrades

Complete the development of *MegaDMS*, a document management system

Continue the marketing and promotion of *Vodalimage* to the Group's installed customer base in the Guangdong Province, the PRC

Promote *Vodalimage* to mobile service providers in Shanghai and Zhejiang Province, the PRC

ACTUAL BUSINESS PROGRESS FOR THE YEAR UNDER REVIEW

Completed the addition of various value-added features to *Megalimage*, including the multi-media document module, system mobile accessibility module, bar code recognition and OCR on numbering

In process of evaluating various facial recognition applications in the market to identify an optimal solution whose functionalities will best complement *MegaMax* when integrated with *MegaMax*

Please refer to the above

In view of market acceptance, first commenced and completed the integration of *MegaERP* and *MegaECM*

Completed the contract secured for the installation of *MegaDMS* at IACM

In process, with the enhanced version of *Megalimage* being promoted to the Group's existing installed customer base

In addition to direct marketing of *Megalimage* to mobile service bureaus in Shanghai and the Zhejiang Province, the Group entered into two distributor agreements and three memoranda of understanding on a non-exclusive basis with five independent distributors as a means to expand the distribution network of *Megalimage* in the PRC. In addition, the Group is in the process of exploring collaboration arrangement with a scanning manufacturer to bundle and resell *Megalimage* together with their scanning equipment

BUSINESS OBJECTIVES FOR THE YEAR UNDER REVIEW AS SET OUT IN THE PROSPECTUS

Promote the existing "TianXin" ERP/CRM applications to enterprises in the Guangdong Province and Shanghai, the PRC

Promote *VodalImage* and *VodaMax* to gaming operators and various departments under the Government of Macao

Participate in one major IT exhibition in the PRC to promote the Group's enterprise solutions

Expand the sales and marketing team by recruiting 6 sales representatives

Complete the setting up of the operating entity/service center in Guangzhou in the Guangdong Province, the PRC

ACTUAL BUSINESS PROGRESS FOR THE YEAR UNDER REVIEW

Via resellers, the Group entered into distributor agreements with ten resellers with presence in China South, China East and China North in the PRC for the distribution of *MegaERP* (previously known as "TianXin" ERP/CRM). In addition, entered into an alliance arrangement with Legend Beijing to bundle *MegaERP* with Legend's equipment for sale to customers in the Shandong Province and Shenzhen

In progress, with *MegalImage* being installed at the Government of Macao, namely IACM and Políicia Judiciária

Participated in Kodak's 2004 channel conference in Hainan and Kodak's new product roadshow in Guangzhou (2004年柯達商業影像部產品巡展(廣州站)) and document imaging product seminar in Kunming (柯達文檔影像新品發佈及產品推介會(昆明)) to promote *MegalImage*

Recruited 1 and 5 sales representatives to the sales and marketing team in Macao and the PRC respectively

Completed. A subsidiary was incorporated in Guangzhou in June 2004 to provide products and technical support to the customers in the PRC

BUSINESS OBJECTIVES FOR THE YEAR UNDER REVIEW AS SET OUT IN THE PROSPECTUS

Explore collaboration arrangements with R&D institutes of various universities or software companies in the PRC that will strengthen the Group's R&D capability and integrated range of enterprise solutions

Conduct feasibility study on acquisition opportunities that will strengthen the Group R&D capability, geographical coverage and complement the Group's integrated range of enterprise solutions

ACTUAL BUSINESS PROGRESS FOR THE YEAR UNDER REVIEW

Entered into a collaboration arrangement with the R&D team of the Zhongshan University and commenced the localization of an image counting application for use by government authorities, gaming operators and enterprises

Under review, which will be in conjunction with the Group's strategic directions to enhance product offerings and R&D capability and expand geographical coverage

APPLICATIONS AND COMPARISON OF USE OF PROCEEDS

The Group raised approximately HK\$20.4 million from the listing of the Shares on GEM.

Comparison of the use of proceeds as stated in the Prospectus with actual application:

USE OF PROCEEDS AS STATED IN THE PROSPECTUS

Approximately HK\$0.2 million for product enhancement with new features and functionalities

Approximately HK\$0.6 million for R&D of new products under the Group's own brand name

Approximately HK\$1.2 million for business development, expansion of the Group's marketing team and participation in IT exhibitions

Approximately HK\$0.8 million for expansion of geographical presence in the PRC

Approximately HK\$0.2 million for application for quality assurance certifications for the Group's products

Working capital

APPLICATION OF PROCEEDS FROM THE INITIAL SHARE OFFER ON 19TH JANUARY 2004

Approximately HK\$0.2 million for product enhancement of the Group's existing solutions

Approximately HK\$0.6 million for the recruitment of additional software engineers to engage in R&D of new products

Approximately HK\$0.9 million for expansion of the Group's marketing team with new sales representatives and participation in various IT exhibitions organized by hardware vendors to promote the Group's products

Approximately HK\$0.6 million for the relocation of the R&D centre from Macao to Zhuhai and the set up of a subsidiary in Guangzhou and a centre in Beijing to provide nationwide products and technical support

Approximately HK\$0.1 million for the application of ISO9001 for the scanning services in Macao

Approximately HK\$2.0 million has been used for general working capital with the balance of net proceeds deposited in licensed banks in Hong Kong

Biographical Details of Directors and Senior Management



Back row from left: KUOK Cheong Ian, KUAN Kin Man, TAM Pak Yip, YIM Hong, MOK Chi Va
Front row from left: TSUI Wai Kwan, José Manuel DOS SANTOS, CHUI Sai Cheong

EXECUTIVE DIRECTORS

Mr. José Manuel dos Santos, aged 56, is the founder of VNHL and the chairman of the Company. He founded the business of VNHL on 8th July 1992 and was appointed as executive Director and chairman of the Company on 29th January 2003. He has over 30 years' experience in the telecommunications industry in the Asia Pacific region. Mr. dos Santos served in a senior position at Direcção dos Serviços de Correios e Telecomunicações, the telecommunications authority of Macao for many years, prior to the founding of Zetronic and subsequently VNHL.

Mr. Mok Chi Va, aged 39, is the Director in charge of the overall business development function of the Group. He was appointed as an executive Director on 29th January 2003. He graduated from the University of Macao and Macau Management Association with a Diploma in Business Administration and from West Coast Institute of Management and Technology in Australia with a Master Degree in Business Administration – International Business. He joined the VNHL on 3rd July 2000 as the business development manager principally in charge of the business of the Group. Prior to joining VNHL, Mr. Mok had worked for Charter Kingdom Limited as the operation manager for about one year, and Tung Tat E&M Engineering Co. Limited as the project manager for four years.

Mr. Kuok Cheong Ian, aged 56, is the Director in charge of the overall software research and development. He was appointed as an executive Director on 16th December 2003. Mr. Kuok holds a Master Degree in Business Administration from Barrington University in U.S.A. Before joining the Group, Mr. Kuok worked for a number of companies including Heng Va Company Limited and Talent Rank Limited as the technical director and general manager respectively.

NON-EXECUTIVE DIRECTORS

Mr. Yim Hong, aged 46 was appointed as a non-executive Director on 11th February 2003. He graduated from the University of London, the United Kingdom with a Bachelor of Science degree. With more than 19 years' experience in the IT industry, he joined Vodatel Systems on 1st September 1998. Prior to joining Vodatel Systems, Mr. Yim was an area business manager since 1993 and was promoted as an area business director at Newbridge Networks (Asia) Limited for approximately a total of two and a half years and country manager at 3Com Asia Limited for approximately two and a half years. He is also an executive director of VNHL.

Mr. Kuan Kin Man, aged 39 was appointed as a non-executive Director on 11th February 2003. In 1985, he joined Zetronic as an engineer and was transferred into marketing later. Mr. Kuan joined the Vodatel Systems (the assets and liabilities of which were transferred to VHL on 1st July 1998) on 8th July 1992 to assume the role of sales manager and was promoted to general manager in 1994. He is also an executive director of VNHL.

INDEPENDENT NON-EXECUTIVE DIRECTOR

Mr. Tsui Wai Kwan, aged 56, was appointed as an independent non-executive Director on 16th December 2003. Mr. Tsui established his own trading and garment businesses as early as 1969 and has accumulated 30 years' experience in the related industries. Mr. Tsui is a member of the Legislative Assembly of Macao and the president of Macao Shippers' Association, and the Board of Directors Chairman of Macao Importers & Exporters Association. He is a director of World Trade Center Macao, SARL as well as the council member of Macao Voluntary Arbitration Centre. With his rich experience and qualification in the commercial field, Mr. Tsui was nominated to be an executive member of All-China Federation of Industry & Commerce.

Mr. Tam Pak Yip, aged 44, was appointed as an independent non-executive Director on 16th December 2003. Mr Tam is the director of Mapleleaf Investment & Consultant Co. Ltd. With his strong and long-term relationship with Macao and the PRC government. Mr Tam is appointed as the executive committee member and standing committee member of 中華全國工商業聯合會; director of China Overseas Friendship Association, member of Inner Mongolia Committee, CPPCC ; committee member of Chongqing-Macao Economic Promotion Association; member of Fujian Hong Kong Macau Economic Cooperation Promotion Committee; vice-chairman of Industrial Association of Macau; and member of Advisory Committee of Macao University of Science and Technology.

Mr. Chui Sai Cheong, aged 50, was appointed as an independent non-executive Director on 23rd September 2004. He is a registered auditor and a civil constructor in Macao and a fellow of CPA Australia with a Master degree in Business Administration from Chaminade University of Honolulu, U.S.A. He is a member of several key Governmental committees including the National Committee, CPPCC and the Legislative Assembly of Macao. He holds several prominent positions in professional bodies including the Macao Chamber of Commerce (Vice President of Board of Director), the Macau Management Association (President) and the Association of Economic Sciences of Macao (President). He is an independent non-executive director of VNHL. He is also an independent non-executive director of Innovo Leisure Recreation Holdings Limited, a company incorporated in Bermuda with limited liability and whose shares are listed on the Main Board.

SENIOR MANAGEMENT

Mr. Robert Cedric Ruggles, aged 46, is the business development manager of the Company. He graduated from University of Sunderland in the United Kingdom with a Master degree in Business Administration. He joined VNHL on 1st April 2002 as the business development manager and has been transferred to the Group since July 2003. Prior to joining VNHL, he had worked for Printrak International Inc. responsible for providing domestic and international technical support, and Motorola Asia Pacific Limited as the solutions engineering manager.

Mr. Chui Yiu Sui, aged 35, is the software development manager of the Company. He holds a degree of Bachelor of Arts awarded by Asia International Open University (Macao). He joined MDL on 1st July 1993. Prior to joining MDL, he had worked for Agencia Comercial Heng Va for six years as a programmer/system analyst. Mr. Chui has been transferred to the Company since 1st July 2003.

Mr. Kam Sai Cheong, aged 39, is the business development manager of the Company. He joined MDL as a senior account manager on 16th April 2001 and was promoted to assistant business development manager in 2002 and business development manager in 2003. Prior to joining MDL, he had worked for PIC Computers Limited for nine years as the assistant sales manager. Mr. Kam has been transferred to the Group since 1st July 2003.

Mr. Wong Chit Lung Philip, aged 32, is the Financial Controller and Company Secretary of the Group. Mr. Wong is responsible for overseeing the accounting and financial management and company secretarial functions of the Group. He is a qualified accountant and a member of American Institute of Certified Public Accountants and Hong Kong Institute of Certified Public Accountants. Mr. Wong holds a Master of Professional Accounting degree from the University of Southern Queensland, and a Bachelor of Arts degree in Economics from the University of Western Ontario. Prior to joining the Group in June 2004, Mr. Wong worked in an international accounting firm, PricewaterhouseCoopers.

DIRECTORS' REPORT

The Directors submit their first annual report together with the audited accounts for the year ended 30th June 2004.

GROUP REORGANISATION

The Company was incorporated in Bermuda on 22nd January 2003 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation, which was completed on 23rd December 2003, to rationalize the structure of the Group in preparation for the listing of the Shares on GEM, the Company became the holding company of the companies now comprising the Group. The Shares were listed on GEM on 19th January 2004.

PRINCIPAL ACTIVITY AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 13 to the accounts.

An analysis of the Group's performance for the year by geographical and business segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The result of the Group for the year are set out in the consolidated profit and loss account on page 31.

The Directors do not recommend the payment of a dividend for the year.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in note 19 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

BANK LOANS AND OVERDRAFTS

As at 30th June 2004, the Group has bank overdrafts as set out in the accounts. Apart from the above, the Group has no other borrowing at 30th June 2004.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 18 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 30th June 2004, calculated under the Companies Act 1981 of Bermuda (as amended), amounted to HK\$8,343,246.

FINANCIAL SUMMARY

A summary of the results of the Group for the period from 10th December 2002 to 30th June 2003 and for the year ended 30th June 2004 and of the assets and liabilities of the Group as at 30th June 2003 and 30th June 2004 is set out below:

	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Results		
Turnover	10,465,492	—
Operating loss	(6,587,285)	—
Finance costs	(1,614)	—
Loss attributable to shareholders	(6,588,899)	—
	As at 30th June 2004 HK\$	As at 30th June 2003 HK\$
Assets and liabilities		
Intangible assets	11,302,728	—
Fixed assets	1,499,380	—
Net current assets	17,600,974	—
Total assets less current liabilities	30,403,082	—
Share capital	5,350,000	—
Reserves	25,053,082	—
	30,403,082	—
Basic loss per share	1.41 cents	—

FINANCIAL SUMMARY *(Continued)*

The turnover, loss attributable to shareholders, non-current assets and net current assets of the Group shown above have been prepared on the basis set out in note 1(a)(i) to the accounts. No financial summary has been presented for the period prior to the incorporation of MegalInfo Limited as neither the Company nor the Group was established.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not redeemed any of the Shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Shares during the year.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. José Manuel dos Santos

Mr. Mok Chi Va

Mr. Kuok Cheong Ian (appointed on 16th December 2003)

Non-executive Directors

Mr. Yim Hong

Mr. Kuan Kin Man

Independent non-executive Directors

Mr. Tsui Wai Kwan (appointed on 16th December 2003)

Mr. Tam Pak Yip (appointed on 16th December 2003)

Mr. Chui Sai Cheong (appointed on 23rd September 2004)

In accordance with Article 87 of the Company's bye-laws, all Directors except Mr. José Manuel dos Santos and Mr. Mok Chi Va retire at the forthcoming annual general meeting but, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Mr. José Manuel dos Santos and Mr. Mok Chi Va have entered into service agreements with the Company for a term of twenty four months commencing from 1st July 2003. The service agreements shall continue thereafter until terminated by either party giving to the other at least three months' notice in writing.

Mr. Kuok Cheong Ian has entered into a service agreement with the Company for a term of twenty four months commencing from 16th December 2003. The service agreement shall continue thereafter until terminated by either party giving to the other at least three months' notice in writing.

DIRECTORS' INTERESTS IN CONTRACTS

The details of the directors' interests in contracts are set out as follows:

- (a) During the year, software development fees have been paid to MET, the beneficial interest of which is held by Mr. Kuok Cheong Ian. There are no transactions between MET and the Group after the appointment of Mr. Kwok Cheong Ian as a Director since 16th December 2003.
- (b) During the year, there are sales transactions conducted between a subsidiary of the Company and Zetronic, the interest of which is held as to 99% by Mr. José Manuel dos Santos and 1% by the spouse of Mr. José Manuel dos Santos.
- (c) During the year, VSCL, in which Mr. José Manuel dos Santos has a 90% beneficial interest, permits the Group to use its Macao office premises. VSCL has waived the Group rental payment with effect from 1st July 2003.

The Directors are of the opinion that the transactions as described in (a) and (b) above, have been entered into and carried out in the ordinary and usual course of business of the Group on an arm's length basis, on normal commercial terms, are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Directors are also of the opinion that the transaction as described in (c) above was on terms better than normal commercial terms to the Group and is fair and reasonable and in the interest of the shareholders of the Company as a whole.

Save as disclosed herein, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th June 2004, the interests and short positions of the Directors and chief executives in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Exchange, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies are as follows:

(i) aggregate long and short positions in Shares and (in respect of equity derivatives) underlying Shares

Name of Director	Long position/ short position	Nature of interest	No. of Shares	Approximate % of the issued share capital of the Company
Mr. José Manuel dos Santos	Long position	Corporate interest <i>(note)</i>	326,617,500	61.05%

Note: 326,617,500 Shares were beneficially owned by VHL. VHL was a wholly-owned subsidiary of VNHL, Eve Resources Limited owned more than one-third of the issued share capital of VNHL and the entire issued share capital in Eve Resources Limited 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 and short positions in shares of VNHL Shares and (in respect of equity derivatives) underlying VNHL Shares

Name of Director	Long position/ short position	Nature of interest	No. of VNHL Shares	No. of underlying VNHL Shares (in respect of share option and convertible bond) held		Approximate % of the issued share capital of VNHL
Mr. José Manuel dos Santos	Long position	Corporate interest (note 1)	293,388,000	–		47.80%
	Long position	Personal interest (note 2)	–	600,000		0.10%
	Short position	Corporate interest (note 1)	–	15,312,000		2.49%
Mr. Kuan Kin Man	Long position	Personal interest (note 3)	12,262,500	900,000		2.14%
Mr. Yim Hong	Long position	Personal interest (note 4)	7,357,500	900,000		1.35%
Mr. Mok Chi Va	Long position	Family/Personal interest (note 5)	20,000	230,000		0.04%

Notes:

- (1) These VNHL Shares were held in the name of Eve Resources Limited and the entire issued share capital in Eve Resources Limited was in turn held by a company wholly owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust. VNHL was under an obligation to issue a total of 15,312,000 VNHL Shares in respect of the outstanding share options and the convertible bond. Mr. José Manuel dos Santos was deemed to be interested in such short position by virtue of his interest in Eve Resources Limited.
- (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 AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

So far as was known to any Directors or chief executive of the Company as at 30th June 2004, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which 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 per cent, 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:

(i) Aggregate long and short positions in Shares and (in respect of equity derivatives) underlying Shares

Name	Notes	Long position/ short position	Nature of interest	No. of Shares held	No. of underlying Shares held	Approximate % of the issued share capital of the Company
Lois Resources Limited	(1)	Long position	Corporate interest	326,617,500	–	61.05%
Eve Resources Limited	(1)	Long position	Corporate interest	326,617,500	–	61.05%
VNHL	(1)	Long position	Corporate interest	326,617,500	–	61.05%
VHL	(1)	Long position	Corporate interest	326,617,500	–	61.05%
Ms. Lei Hon Kin	(2)	Long position	Family interest	326,617,500	–	61.05%
Gofull Investment Limited	(3)	Long position	Corporate interest	74,632,500	–	13.95%
eForce Holdings Limited	(3)	Long position	Corporate interest	74,632,500	–	13.95%

Notes:

- Lois Resources Limited was deemed to be interested in 326,617,500 Shares by virtue of its interest in Eve Resources Limited. Eve Resources Limited 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.
- 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.
- eForce Holdings Limited was deemed to be interested in 74,632,500 Shares by virtue of its interest in Gofull Investment Limited. 74,632,500 Shares were beneficially owned by Gofull Investment Limited.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	21.9%
– five largest suppliers combined	83.4%
Sales	
– the largest customer	21.6%
– five largest customers combined	85.1%

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

BOARD PRACTICES AND PROCEDURES

The Company has complied with rules 5.28 to 5.45 of GEM Listing Rules concerning board practices and procedures throughout the year.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's 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. Tsui Wai Kwan, Mr. Tam Pak Yip and Mr. Chui Sai Cheong. One meeting was held during the current financial year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors has an interest in a business which compete or may compete with the business of the Group.

SPONSORS' INTEREST

Pursuant to the agreement 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 remainder of the financial year ending 30th June 2004 and the two years ending 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 under the Joint Sponsors' Agreement dated 30th December 2003 for a period from the date of listing of the shares of the Company first commenced on GEM to 30th June, 2006 with effect from 1st August 2004.

CSC Asia, the other continuing sponsor, 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 the Company's joint sponsors, 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 June 2004.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

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

Hong Kong, 23rd September 2004

AUDITORS' REPORT

AUDITORS' REPORT TO THE SHAREHOLDERS OF MEGAINFO HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts set out on pages 31 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30th June 2004 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23rd September 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

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For the year ended 30th June 2004

	Note	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Turnover	2	10,465,492	–
Cost of sales		(7,559,171)	–
Gross profit		2,906,321	–
Other revenue	2	3,130	–
Selling expenses		(97,971)	–
Administrative expenses		(9,398,765)	–
Operating loss	3	(6,587,285)	–
Finance cost	4	(1,614)	–
Loss attributable to shareholders	6	(6,588,899)	–
Basic loss per share	8	1.41 cents	–

CONSOLIDATED BALANCE SHEET

As at 30th June 2004

	Note	2004 HK\$	2003 HK\$
Non-current assets			
Intangible assets	11	11,302,728	–
Fixed assets	12	1,499,380	–
Current assets			
Amount due from the immediate holding company	14	–	6,380
Inventories	15	3,993,514	–
Trade receivables	16	4,100,080	–
Other receivables, deposits and prepayments		1,422,501	–
Bank balances and cash		16,015,256	–
		25,531,351	6,380
Current liabilities			
Trade payables	17	1,088,687	–
Other payables, accruals and deposits received		4,473,801	–
Deferred revenue		224,050	–
Bank overdrafts		2,143,839	–
		7,930,377	–
Net current assets		17,600,974	6,380
Total assets less current liabilities		30,403,082	6,380
Financed by:			
Share capital	18	5,350,000	130,000
Reserves	19	25,053,082	(123,620)
Shareholders' funds		30,403,082	6,380

On behalf of the Board

José Manuel dos Santos
Director

Mok Chi Va
Director

BALANCE SHEET

33

As at 30th June 2004

	Note	2004 HK\$	2003 HK\$
Investments in subsidiaries	13	28,564,824	–
Current assets			
Amount due from the immediate holding company	14	–	5,500,000
Other receivables		22,500	–
Bank balances and cash		6,378,405	–
		6,400,905	5,500,000
Current liabilities			
Other payables and accruals		465,000	–
Bank overdrafts		230,923	–
		695,923	–
Net current assets		5,704,982	5,500,000
Total assets less current liabilities		34,269,806	5,500,000
Financed by:			
Share capital	18	5,350,000	100,000
Reserves	19	28,919,806	5,400,000
Shareholders' funds		34,269,806	5,500,000

On behalf of the Board

José Manuel dos Santos*Director***Mok Chi Va***Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th June 2004

	Note	HK\$
Issue of shares	18,19	5,530,000
Contributed surplus arising from the reorganisation (as defined in note 1(a)(i))	19	<u>(5,523,620)</u>
Total equity as at 30th June 2003		6,380
Contributed surplus arising from the issue of shares in a subsidiary for the purchase of a software licence and the acquisition of the Business (as defined in note 1(a)(i))	19	11,132,019
Issue of shares by placing and public offer	18,19	30,093,750
Contributed surplus arising from the waiver of amount due to the immediate holding company	19	5,500,000
Share issuance costs	19	(9,697,190)
Loss for the year	19	(6,588,899)
Exchange differences arising on translation of accounts of foreign subsidiaries	19	<u>(42,978)</u>
Total equity as at 30th June 2004		<u><u>30,403,082</u></u>

CONSOLIDATED CASH FLOW STATEMENT

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For the year ended 30th June 2004

	Note	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Net cash outflow generated from operating activities	21(a)	(1,679,472)	(6,380)
Interest received		3,130	–
Interest paid		(1,614)	–
Net cash outflow from operating activities		(1,677,956)	(6,380)
Investing activities			
Purchase of fixed assets		(1,780,651)	–
Purchase of intangible assets		(467,290)	–
Acquisition of the Business (as defined in note 1(a)(i))	21(b)	(1,840,164)	–
Acquisition of subsidiaries	21(c)	(716,104)	–
Net cash outflow from investing activities		(4,804,209)	–
Net cash outflow before financing		(6,482,165)	–
Financing activities			
Issue of ordinary shares		30,093,750	6,380
Inception of a bank loan		194,175	–
Repayment of a bank loan		(194,175)	–
Share issuance costs		(9,697,190)	–
Net cash inflow from financing		20,396,560	6,380
Increase in cash and cash equivalents		13,914,395	–
Cash and cash equivalents at the beginning of the year/period		–	–
Effect of foreign exchange rate changes		(42,978)	–
Cash and cash equivalents at the end of the year/period		13,871,417	–
Analysis of balances of cash and cash equivalents			
Bank balances and cash		16,015,256	–
Bank overdrafts		(2,143,839)	–
		13,871,417	–

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

- (i) The Company was incorporated in Bermuda on 22nd January 2003. Its shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM") on 19th January 2004.

MegalInfo Limited, a subsidiary of the Company, was incorporated on 10th December 2002 which was the earliest date of incorporation of the companies now comprising the Group resulting from the reorganisation on 23rd December 2003. Accordingly, the accounting period of the Group is presented since that date.

On 30th December 2002, 820 shares of US\$1.00 each in MegalInfo Limited were allotted and issued, credited as fully paid, for cash at par to Vodatel Holdings Limited ("VHL").

In order to transfer assets and the business of provision of digital image processing management solutions (the "Business") to the Group, VHL and MegalInfo Limited entered into a sale and purchase agreement on 23rd December 2003 pursuant to which the Group assumed the Business operated by VHL and its fellow subsidiaries and effected certain inter-group transfers with effect from 1st July 2003. An aggregate of 820 shares of US\$1.00 each in MegalInfo Limited were allotted and issued, credited as fully paid to VHL as part of the consideration for VHL to effect the inter-group transfers. The details of the acquisition of the Business are set out in note 21(c) below.

On 23rd December 2003, an aggregate of 360 shares of US\$1.00 each in MegalInfo Limited were allotted and issued, credited as fully paid to Gofull Investments Limited ("Gofull"), a wholly-owned subsidiary of eForce Holdings Limited (issued shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited) in consideration of the purchase of a software licence. The details of the purchase of the software licence are set out in note 21(d)(iii) below.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company on the GEM, the Company became the holding company of the companies now comprising the Group on 23rd December 2003. VHL and Gofull then had 82% and 18% equity interest in the Group respectively and the equity interest in the Group owned by VHL and Gofull remained the same immediately before and after the Reorganisation. The Reorganisation involved companies under common control and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group.

NOTES TO THE ACCOUNTS 37

1 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

(a) Basis of preparation (*Continued*)

Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which consolidated accounts have been prepared as if the Company had been the holding company of the companies comprising the Group throughout the accounting year/period presented.

- (ii) The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. They have been prepared under the historical cost convention.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 30th June.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

38 **NOTES TO THE ACCOUNTS****1** **PRINCIPAL ACCOUNTING POLICIES** *(Continued)***(c)** **Intangibles***(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition.

Goodwill on acquisitions is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

(ii) Software licences

Expenditure on acquired software licenses is capitalised and amortised using the straight-line method over their useful lives or licensing period, whichever is shorter.

(iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

NOTES TO THE ACCOUNTS 39

1 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

(d) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Computer equipment	50%
Demonstration equipment	33 $\frac{1}{3}$ %

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and, where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises invoiced cost of inventories. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

(g) *Accounts receivable*

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(h) *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

(i) *Provisions*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) *Employee benefits*

(i) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) *Bonus*

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus payments are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

(j) Employee benefits (*Continued*)

(iii) Pension obligation

The Group participates in defined contribution plans which are available to all qualified employees, the assets of which are held in separate trustee administered funds. The pension plans are funded by payments from employees and by the relevant Group companies. Contributions to the schemes by the Group are charged to profit and loss accounts as incurred.

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

42 **NOTES TO THE ACCOUNTS****1** **PRINCIPAL ACCOUNTING POLICIES (Continued)****(m) Revenue recognition**

Revenue from the provision of digital image processing management solutions is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers and title has passed.

Revenue from separately priced product maintenance contracts, which is received or receivable from customers, is deferred and amortised on a straight-line basis over the contracted period.

Interest income is recognised on a time proportion basis, taking account of the principal amounts outstanding and the interest rates applicable.

(n) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as amount due to the immediate holding company. Unallocated assets and liabilities represent software licences and corporate assets and liabilities. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions through acquisition of the Business and purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the provision of digital image processing management solutions. Revenue recognised during the year are as follows:

	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Turnover		
Provision of digital image processing management solutions	10,465,492	–
Other revenue		
Interest income	3,130	–
Total revenue	10,468,622	–

(i) **Primary reporting format – geographical segment**

The Group is principally engaged in the provision of digital image processing management solutions in the People's Republic of China (the "PRC") and Macao.

There are no sales between the geographical segments.

44 **NOTES TO THE ACCOUNTS****2 TURNOVER, REVENUES AND SEGMENT INFORMATION** *(Continued)*(i) Primary reporting format – geographical segment *(Continued)*

	Year ended 30th June 2004		
	Macao HK\$	The PRC HK\$	Group HK\$
Turnover	<u>10,359,949</u>	<u>105,543</u>	<u>10,465,492</u>
Segment results	<u>(2,693,702)</u>	<u>(1,975,087)</u>	<u>(4,668,789)</u>
Unallocated income			1,530
Unallocated expenses			<u>(1,920,026)</u>
Operating loss			<u>(6,587,285)</u>
Finance costs			<u>(1,614)</u>
Loss attributable to shareholders			<u>(6,588,899)</u>
Segment assets	17,616,939	3,554,088	21,171,027
Unallocated assets			<u>17,162,432</u>
Total assets			<u>38,333,459</u>
Segment liabilities	6,866,738	367,716	7,234,454
Unallocated liabilities			<u>695,923</u>
Total liabilities			<u>7,930,377</u>
Capital expenditures			
– allocated	1,774,062	29,433	1,803,495
– unallocated			<u>11,467,290</u>
Depreciation charge	371,075	11,555	382,630
Amortisation charge			
– allocated	-	43,881	43,881
– unallocated			<u>705,763</u>

NOTES TO THE ACCOUNTS

2 TURNOVER, REVENUES AND SEGMENT INFORMATION (Continued)

(i) Primary reporting format – geographical segment (Continued)

	For the period from		
	10th December 2002 to 30th June 2003		
	Macao HK\$	The PRC HK\$	Group HK\$
Turnover	—	—	—
Segment results	—	—	—
Unallocated income			—
Unallocated expenses			—
Operating loss			—
Finance costs			—
Loss attributable to shareholders			—
Segment assets	—	—	—
Unallocated assets			6,380
Total assets			6,380
Segment liabilities	—	—	—
Unallocated liabilities			—
Total liabilities			—
Capital expenditures	—	—	—
Depreciation charge	—	—	—
Amortisation charge	—	—	—

Note 1: The PRC, for the purposes of this report, excludes Hong Kong, Taiwan and Macao.

(ii) Secondary reporting format – business segment

No business segment analysis is presented as the Group has been operating in a single business segment, which is the provision of digital image processing management solutions.

46 **NOTES TO THE ACCOUNTS****3 OPERATING LOSS**

Operating loss is stated after charging the following:

	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Auditors' remuneration	465,000	–
Cost of inventories	5,489,487	–
Depreciation of fixed assets	382,630	–
Amortisation of intangible assets		
– goodwill	43,881	–
– software licences	705,763	–
Net exchange loss	25,221	–
Operating leases in respect of		
– land and buildings	428,990	–
– equipment	21,000	–
Software development fees	480,000	–
Staff costs (including directors' remuneration) (note 9)	4,920,222	–

4 FINANCE COST

	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Interest on bank loan and overdrafts	1,614	–

NOTES TO THE ACCOUNTS

5 TAXATION

No provision for profits tax has been made in the accounts as the Group does not have any estimated assessable profits in the jurisdictions in which the Group operates for the year ended 30th June 2004 (period from 10th December 2002 to 30th June 2003: Nil).

The taxation on the Group's loss for the year differs from theoretical amount that would arise using the taxation rate of 15.75% of the home jurisdiction in which the Company operates as follows:

	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Loss for the period	(6,588,899)	—
Calculated at a taxation rate of 15.75%	(1,037,752)	—
Effect of different taxation rates in other jurisdictions	(44,517)	—
Expenses not deductible for taxation purposes	10,867	—
Tax loss not recognised	1,071,402	—
Taxation charge	—	—

6 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$1,212,733 (period from 10th December 2002 to 30th June 2003: Nil).

7 DIVIDENDS

No dividend has been paid or declared by the Group during the year ended 30th June 2004 (period from 10th December 2002 to 30th June 2003: Nil).

48 **NOTES TO THE ACCOUNTS****8 LOSS PER SHARE**

The calculation of basic loss per share is based on the Group's loss for the year ended 30th June 2004 of HK\$6,588,899 (period from 10th December 2002 to 30th June 2003: Nil) and the weighted average of 468,381,507 shares in issue during the year.

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

9 STAFF COSTS (INCLUDING DIRECTORS' REMUNERATION)

	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Fees, salaries and discretionary bonus	4,768,942	–
Social security cost (note (a))	142,280	–
Pension costs – defined contribution plan (note (b))	9,000	–
	<u>4,920,222</u>	<u>–</u>

The staff costs above included staff costs incurred on research and development which amounted to HK\$664,720 for the year ended 30th June 2004 (period from 10th December 2002 to 30th June 2003: Nil).

- (a) The Group participates in employee social security plans as required by the regulations in the PRC and Macao. The amount charged to the profit and loss account represents contributions payable by the Group at rates specified in the rules of the plans.
- (b) A mandatory provident fund scheme (the "MPF Scheme") has been set up for all the eligible employees of the Group in Hong Kong. The MPF Scheme is defined contribution retirement scheme and the contributions to the fund by the Group and employees and calculated as a percentage of the employees' basic salaries.

NOTES TO THE ACCOUNTS

10 EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the directors of the Company during the year are as follows:

	Year ended 30th June 2004	For the period from 10th December 2002 to 30th June 2003
	HK\$	HK\$
Fees	390,000	–
Basic salaries	626,605	–
Discretionary bonus	130,000	–
Social security cost	1,049	–
	<u>1,147,654</u>	<u>–</u>

Directors' fees disclosed above include HK\$65,000, HK\$65,000, HK\$32,500 and HK\$32,500 paid to two independent non-executive directors and two non-executive directors respectively (period from 10th December 2002 to 30th June 2003: Nil).

The three executive directors of the Company received individual emoluments for the year ended 30th June 2004 of HK\$410,275, HK\$325,000 and HK\$217,379 respectively (period from 10th December 2002 to 30th June 2003: Nil).

50 **NOTES TO THE ACCOUNTS****10 EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS**
*(Continued)***(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year ended 30th June 2004 include two directors (period from 10th December 2002 to 30th June 2003: Nil) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year are as follows:

	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Basic salaries	801,581	–
Discretionary bonus	150,600	–
Social security cost	1,048	–
Pension costs – defined contribution plan	9,000	–
	962,229	–

The emoluments fell within the following band:

	Year ended 30th June 2004	For the period from 10th December 2002 to 30th June 2003
Nil to HK\$1,000,000	3	–

NOTES TO THE ACCOUNTS

51

10 EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS

(Continued)

- (c) During the year ended 30th June 2004, no directors or the five highest paid individuals of the Company waived any emoluments and no emoluments have been paid by the Group to them as an inducement to join the Group, or as compensation for loss of office (period from 10th December 2002 to 30th June 2003: Nil)..

11 INTANGIBLE ASSETS

	Group		Total
	Goodwill	Software licences	
	HK\$	HK\$	HK\$
Year ended 30th June 2004			
Opening net book amount	–	–	–
Purchase of software licences	–	11,467,290	11,467,290
Acquisition of subsidiaries	585,082	–	585,082
Amortisation charge	(43,881)	(705,763)	(749,644)
	<u>541,201</u>	<u>10,761,527</u>	<u>11,302,728</u>
Closing net book amount			
	<u>541,201</u>	<u>10,761,527</u>	<u>11,302,728</u>
At 30th June 2004			
Cost	585,082	11,467,290	12,052,372
Accumulated amortisation	(43,881)	(705,763)	(749,644)
	<u>541,201</u>	<u>10,761,527</u>	<u>11,302,728</u>
Net book amount			
	<u>541,201</u>	<u>10,761,527</u>	<u>11,302,728</u>
At 30th June 2003			
Cost	–	–	–
Accumulated amortisation	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>
Net book amount			
	<u>–</u>	<u>–</u>	<u>–</u>

52 **NOTES TO THE ACCOUNTS****12 FIXED ASSETS**

	Group				Total HK\$
	Leasehold improvements HK\$	Computer equipment HK\$	Demonstration equipment HK\$	Furniture, fixtures and equipment HK\$	
Cost					
At 1st July 2003	-	-	-	-	-
Acquisition of the Business	-	-	-	22,844	22,844
Additions	1,447,087	117,608	209,600	6,356	1,780,651
Acquisition of subsidiaries	-	75,448	-	7,944	83,392
At 30th June 2004	<u>1,447,087</u>	<u>193,056</u>	<u>209,600</u>	<u>37,144</u>	<u>1,886,887</u>
Accumulated depreciation					
At 1st July 2003	-	-	-	-	-
Charge for the year	285,117	42,451	38,370	16,692	382,630
Acquisition of subsidiaries	-	4,316	-	561	4,877
At 30th June 2004	<u>285,117</u>	<u>46,767</u>	<u>38,370</u>	<u>17,253</u>	<u>387,507</u>
Net book value					
At 30th June 2004	<u>1,161,970</u>	<u>146,289</u>	<u>171,230</u>	<u>19,891</u>	<u>1,499,380</u>
At 30th June 2003	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS

13 INVESTMENTS IN SUBSIDIARIES

	2004	2003
	HK\$	HK\$
Investments, unlisted shares, at cost (note (a))	9,585,979	–
Amounts due from subsidiaries (note (b))	18,978,845	–
	28,564,824	–

(a) The following is a list of subsidiaries at 30th June 2004:

Name	Country/place of incorporation/ establishment	Issued/ registered and fully paid up share capital	Attributable equity interest	Principal activities and place of operation
			%	
Shares held directly:				
MegaInfo Limited	British Virgin Islands	2,000 ordinary shares of US\$1 each	100	Investment holding and provision of digital image processing management solutions/Macao
Shares held indirectly:				
MegaInfo China Holdings Limited	British Virgin Islands	1,000 ordinary shares of US\$1 each	100	Investment holding/ the PRC
MegaInfo Software Limited	British Virgin Islands	1,000 ordinary shares of US\$1 each	100	Owner of intellectual property rights/Macao
MegaInfo Solutions Holdings Limited	British Virgin Islands	1,000 ordinary shares of US\$1 each	100	Owner of intellectual property rights/the PRC
MegaInfo (Hong Kong) Limited	Hong Kong	1,000 ordinary shares of HK\$0.10 each	100	Investment holding/ Hong Kong

54 **NOTES TO THE ACCOUNTS****13 INVESTMENTS IN SUBSIDIARIES (Continued)**

(a) The following is a list of subsidiaries at 30th June 2004: (Continued)

Name	Country/place of incorporation establishment	Issued/ registered and fully paid up share capital	Attributable equity interest %	Principal activities and place of operation
MegalInfo Technology Limited (formerly known as Eagle Insight Limited)	Hong Kong	1,000 ordinary shares of HK\$1 each	100	Investment holding/ Hong Kong
PE Research and Development Limited (note(c))	Macao	2 quotas of MOP12,500 each	100	Investment holding/ the PRC
Zhuhai MegaSoft Software Development Co., Ltd (note(c))	The PRC	Registered capital of HK\$1 million	100	Provision of computer software products, computer network system engineering, research and development and selling and providing related services and maintenance/the PRC
Guangzhou MegalInfo Technology Company Limited	The PRC	Registered capital of HK\$1.6 million	100	Provision of computer software products, computer network system engineering, research and development and selling and providing related services and maintenance/the PRC

NOTES TO THE ACCOUNTS

13 INVESTMENTS IN SUBSIDIARIES (*Continued*)

- (b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayments.
- (c) On 22nd September 2003, the Group acquired 100% interests in PE Research and Development Limited and Zhuhai MegaSoft Development Co., Ltd. for HK\$1,000,000 satisfied in cash. As a result, the Group's loss for the year and the net assets as at year end have increased and decreased by HK\$2,123,238 respectively.

14 AMOUNT DUE FROM THE IMMEDIATE HOLDING COMPANY

The amount is unsecured, interest-free and has no fixed term of repayment.

15 INVENTORIES

	Group	
	2004	2003
	HK\$	HK\$
Networking and image processing equipment	3,993,514	–

At 30th June 2004, no inventory is carried at net realisable value.

16 TRADE RECEIVABLES

At 30th June 2004, the ageing analysis of the trade receivables is as follows:

	Group	
	2004	2003
	HK\$	HK\$
0 – 30 days	18,948	–
31 – 60 days	2,260,135	–
61 – 90 days	–	–
91 – 120 days	–	–
121 – 365 days	–	–
> 365 days	1,820,997	–
	4,100,080	–

The credit terms granted to customers vary and are generally the result of negotiations between the individual customers and the Group. The amount of HK\$1,820,997 included in all balances over 12 months as at 30th June 2004 was due from a fellow subsidiary, Guangzhou Vodatel Development Limited.

56 **NOTES TO THE ACCOUNTS****17 TRADE PAYABLES**

At 30th June 2004, the ageing analysis of the trade payables is as follows:

	Group	
	2004	2003
	HK\$	HK\$
0 – 30 days	<u>1,088,687</u>	<u>–</u>

18 SHARE CAPITAL

	Ordinary shares	
	No. of shares	HK\$
Authorised:		
Issue of shares of HK\$0.10 each (note (a))	<u>1,000,000</u>	<u>100,000</u>
At 30th June 2003, HK\$0.10 each	1,000,000	100,000
Subdivision of shares of HK\$0.10 each into ten shares of HK\$0.01 each (note (b)(i))	9,000,000	–
Increase in authorised ordinary share capital of HK\$0.01 each (note (b)(i))	<u>990,000,000</u>	<u>9,900,000</u>
At 30th June 2004, HK\$0.01 each	<u>1,000,000,000</u>	<u>10,000,000</u>
Issued and fully paid:		
Issue of shares of HK\$0.10 each (note (a))	<u>1,000,000</u>	<u>100,000</u>
At 30th June 2003, HK\$0.10 each	1,000,000	100,000
Subdivision of each ordinary shares of HK\$0.10 each into ten shares of HK\$0.01 each (note (b)(i))	9,000,000	–
Issue of shares arising from the Reorganisation, HK\$0.01 each (note (b)(ii))	3,000,000	30,000
Issue of shares by placing and public offer, HK\$0.01 each (note (c))	120,375,000	1,203,750
Capitalisation issue, HK\$0.01 each (note (d))	<u>401,625,000</u>	<u>4,016,250</u>
At 30th June 2004, HK\$0.01 each	<u>535,000,000</u>	<u>5,350,000</u>

NOTES TO THE ACCOUNTS

18 SHARE CAPITAL (*Continued*)

Details of the changes in the Company's share capital for the period from 22nd January 2003 (date of incorporation) to 30th June 2004 are as follows:

- (a) The Company was incorporated on 22nd January 2003 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were allotted and issued nil paid to VHL on 29th January 2003. All such shares were eventually credited as fully paid on 30th April 2003 for a consideration of HK\$5,500,000 by the assignment from VHL to the Company of a promissory note issued by a fellow subsidiary with a face value of HK\$5,500,000.
- (b) Pursuant to the written resolutions of the then sole shareholder of the Company dated 23rd December 2003:
 - (i) every issued and unissued share of HK\$0.10 in the share capital of the Company was subdivided into 10 shares and the authorised share capital of the Company was increased from HK\$100,000 to HK\$10,000,000 by the creation of an additional 990,000,000 shares. All shares ranked *pari passu* in all respects with shares then in issue; and
 - (ii) the directors were authorised to allot and issue an aggregate of 660,000 shares and 2,340,000 shares, credited as fully paid, to VHL and Gofull respectively as part of the consideration for the acquisition by the Company of the entire issued share capital of MegalInfo Limited from VHL and Gofull respectively.
- (c) On 19th January 2004, the Company issued 120,375,000 shares of HK\$0.01 each by way of placing HK\$0.25 per share for a total cash consideration of HK\$30,093,750 in relation to the listing of the Company's shares on the GEM. Accordingly, HK\$28,890,000 was credited to the share premium account of the Company. The shares of the Company were listed on the GEM on 19th January 2004.
- (d) On 19th January 2004, 401,625,000 shares of HK\$0.01 each were issued at par as fully paid to the shareholders whose names appeared on the register of members of the Company on 30th December 2003 by debiting an amount of HK\$4,016,250 of the share premium account of the Company arising from the new issue.
- (e) The share capital presented in the consolidated balance sheet as at 30th June 2003 represented the share capital of the Company, arising from the transactions as described in notes (a) and (b) above, which is deemed to have been in issue throughout the accounting year/period presented in these accounts in accordance with the basis of preparation as set out in note 1(a)(i).

58 **NOTES TO THE ACCOUNTS****19 RESERVES**

	Group					Total HK\$
	Share	Share	Exchange	Contributed	Accumulated	
	premium HK\$	issuance costs HK\$	reserve HK\$	surplus (note (a)) HK\$	losses HK\$	
Issue of shares (note 18(a))	5,400,000	-	-	-	-	5,400,000
Contributed surplus arising from the Reorganisation	-	-	-	(5,523,620)	-	(5,523,620)
At 30th June 2003	5,400,000	-	-	(5,523,620)	-	(123,620)
Issue of shares in a subsidiary for purchase of a software licence (note 21(d)(iii))	-	-	-	11,000,000	-	11,000,000
Issue of shares in a subsidiary for acquisition of the Business (note 21(b))	-	-	-	132,019	-	132,019
Issue of shares (note 18(c))	28,890,000	-	-	-	-	28,890,000
Capitalisation issue (note 21(d)(iv))	(4,016,250)	-	-	-	-	(4,016,250)
Share issuance costs	-	(9,697,190)	-	-	-	(9,697,190)
Transfer	(9,697,190)	9,697,190	-	-	-	-
Exchange differences on translation of accounts of foreign subsidiaries	-	-	(42,978)	-	-	(42,978)
Waiver of amount due to the immediate holding company (note 21(d)(ii))	-	-	-	5,500,000	-	5,500,000
Loss attributable to shareholders	-	-	-	-	(6,588,899)	(6,588,899)
At 30th June 2004	20,576,560	-	(42,978)	11,108,399	(6,588,899)	25,053,082

NOTES TO THE ACCOUNTS

19 RESERVES (Continued)

	Share premium	Share issuance costs	Company Contributed surplus (note (b))	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$	HK\$
Issue of share (note 18(a))	5,400,000	-	-	-	5,400,000
At 30th June 2003	5,400,000	-	-	-	5,400,000
Contributed surplus arising from the Reorganisation	-	-	4,055,979	-	4,055,979
Issue of shares (note 18(c))	28,890,000	-	-	-	28,890,000
Capitalisation issue (note 21(d)(iv))	(4,016,250)	-	-	-	(4,016,250)
Share issuance costs	-	(9,697,190)	-	-	(9,697,190)
Transfer	(9,697,190)	9,697,190	-	-	-
Waiver of amount due to the immediate holding company (note 21(d)(ii))	-	-	5,500,000	-	5,500,000
Loss attributable to shareholders	-	-	-	(1,212,733)	(1,212,733)
At 30th June 2004	<u>20,576,560</u>	<u>-</u>	<u>9,555,979</u>	<u>(1,212,733)</u>	<u>28,919,806</u>

Note:

- (a) The contributed surplus of the Group represents (1) the difference between (a) the nominal value of the share capital and the existing balances on the share premium account of a subsidiary acquired; and (b) the nominal value of the shares issued by the Company and the release and waiver of the amount owed by the then holding company of the subsidiary to the Company in exchange thereof; and (2) the release and waiver of the amount owed by the Company to its immediate holding company.
- (b) The contributed surplus of the Company represents (1) the difference between (a) the consolidated shareholders' funds of the subsidiaries and (b) the nominal value of the Company's shares issued and the release and waiver of the amount owed by the then holding company of the subsidiary to the Company for the acquisition at the time of the Reorganisation; and (2) the release and waiver of the amount owed by the Company to its immediate holding company. Under the Companies Act 1981 of Bermuda, contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.
- (c) Distributable reserves of the Company at 30th June 2004 amounted to HK\$8,343,246 (2003: Nil).

60 **NOTES TO THE ACCOUNTS****20 DEFERRED TAXATION**

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The Group has unrecognised tax losses as at 30th June 2004 of HK\$6,507,880 (2003: Nil). To carry forward against future taxable income. The tax losses will expire according to the prevailing tax laws and regulations in the jurisdictions in which the Group operates.

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating loss before taxation to cash outflow from operating activities**

	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Operating loss	(6,587,285)	–
Depreciation of fixed assets	382,630	–
Amortisation of goodwill	43,881	–
Amortisation of intangible assets	705,763	–
Interest income	(3,130)	–
	<hr/>	<hr/>
Operating loss before working capital changes	(5,458,141)	–
Decrease/(increase) in the amount due from the immediate holding company	5,506,380	(6,380)
Increase in inventories	(3,993,514)	–
Increase in trade receivables, other receivables, deposits and prepayments	(3,263,439)	–
Increase in trade payables, other payables, accruals and deposits received	5,529,242	–
	<hr/>	<hr/>
Net cash outflow generated from operating activities	<u>(1,679,472)</u>	<u>(6,380)</u>

NOTES TO THE ACCOUNTS

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (*Continued*)

(b) Acquisition of the Business

	Year ended 30th June 2004 HK\$
Net assets acquired	
Fixed assets	22,844
Trade receivables	2,199,840
Trade payables	(26,451)
Deferred revenue	(224,050)
	<u>1,972,183</u>
Satisfied by	
Allotment of shares in a subsidiary (note)	132,019
Cash	<u>1,840,164</u>
	<u>1,972,183</u>

Note: On 23rd December 2003, an aggregate of 820 shares of US\$1.00 each in MegalInfo Limited were allotted and issued, credited as fully paid, to VHL as part of the consideration for VHL to effect the inter-group transfers with effect from 1st July 2003 as set out in note 1(a)(i). Accordingly, HK\$6,380 and HK\$125,639 have been credited as share capital and share premium of MegalInfo Limited respectively.

The cash flow effects of the acquisition are presented in the consolidated cash flow statement to the accounts.

Analysis of the net cash outflow in respect of the acquisition of the Business:

	Year ended 30th June 2004 HK\$
Cash consideration	(1,840,164)
Bank balances and cash on hand acquired	<u>-</u>
Net cash outflow in respect of the acquisition of the Business	<u>(1,840,164)</u>

62 **NOTES TO THE ACCOUNTS**21 **NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)**(c) **Acquisition of subsidiaries**

	Year ended 30th June 2004 HK\$
Net assets acquired	
Fixed assets	78,516
Other receivables, deposits and prepayments	59,302
Bank balances and cash	283,896
Other payables and accruals	(879)
Amount due to a related company	(5,917)
	414,918
Goodwill	585,082
	1,000,000
Satisfied by	
Cash	1,000,000

The subsidiaries acquired during the year incurred HK\$1,807,194 as part of the Group's net operating cash outflow and paid HK\$280,374 in respect of investing activities.

Analysis of the net cash outflow in respect of the acquisition of subsidiaries:

	Year ended 30th June 2004 HK\$
Cash consideration	(1,000,000)
Bank balances and cash on hand acquired	283,896
Net cash outflow in respect of the acquisition of subsidiaries	(716,104)

NOTES TO THE ACCOUNTS

21 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (*Continued*)

(d) Major non-cash transactions

- (i) The share capital arising from the transactions as described in notes 18(a) and 18(b) is deemed to have been in issue throughout the accounting year/period presented in these accounts in accordance with the basis of preparation as set out in note 1(a)(i).
- (ii) Prior to listing of shares of the Company on 19th January 2004, VHL agreed to waive HK\$5,500,000 owed by the Company to VHL as a capital contribution.
- (iii) On 23rd December 2003, MegalInfo Limited allotted and issued an aggregate of 360 shares of US\$1.00 each to Gofull as a consideration of HK\$11,000,000 for the purchase of Tianxin Software licence. Accordingly, HK\$2,800 and HK\$10,997,200 have been credited as share capital and share premium of MegalInfo Limited respectively.
- (iv) On 19th January 2004, 401,625,000 shares of HK\$0.01 each were issued at par as fully paid to the shareholders whose names appeared on the register of members of the Company on 30th December 2003 by debiting an amount of HK\$4,016,250 of the share premium account of the Company arising from the new issue.

22 OPERATING LEASE COMMITMENTS

At 30th June, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

	2004	2003
	HK\$	HK\$
Within one year	268,719	341,616
In the second to fifth year inclusive	-	170,808
	268,719	512,424

64 **NOTES TO THE ACCOUNTS****23 RELATED PARTY TRANSACTIONS**

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Year ended 30th June 2004 HK\$	For the period from 10th December 2002 to 30th June 2003 HK\$
Software development fees payable to MET Electronic Technology Company, Limited ("MET") (note (a))	480,000	–
Purchases from Zetronic Communications (Macau) Limited (note (b))	16,398	–
Rental expenses payable to Vodatel Services and Consultant Limited ("VSCL") for the use of office premises (note (c))	–	–

- (a) During the year, software development fees have been paid to MET, the beneficial interest of which is held by Mr. Kuok Cheong lan. There are no transactions between MET and the Group after the appointment of Mr. Kuok Cheong lan as a director since 16th December 2003.
- (b) During the year, there are sales transactions conducted between a subsidiary of the Company and Zetronic Communications (Macau) Limited, a company incorporated in Macao, the interest of which is held as to 99% by Mr. José Manuel dos Santos and 1% by the spouse of Mr. José Manuel dos Santos.
- (c) During the year, VSCL, in which Mr. José Manuel dos Santos has a 90% beneficial interest, permits the Group to use its Macao office premises. VSCL has waived the Group rental payment with effect from 1st July 2003.

The directors are of the opinion that the transactions as described in (a) and (b) above, have been entered into and carried out in the ordinary and usual course of business of the Group on an arm's length basis, on normal commercial terms, are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The directors are also of the opinion that the transaction as described in (c) above was on terms better than normal commercial terms to the Group and is fair and reasonable and in the interest of so far as the shareholders of the Company as a whole.

24 ULTIMATE HOLDING COMPANY

The directors regard Vodatel Networks Holdings Limited, a company incorporated in Bermuda, as being the ultimate holding company.

25 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 23rd September 2004.

DEFINITIONS

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“Board”	the board of Directors
“Company”	MegaInfo Holdings Limited
“CPPCC”	Chinese People’s Political Consultative Conference
“Director(s)”	the director(s) of the Company
“ECM”	the Effective Communication Management solution
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
“GEM”	the Growth Enterprise Market of the Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IACM”	Instituto para os Assuntos Cívicos e Municipais, the civil and municipal affairs department of the Government of Macao
“Macao”	the Macao Special Administration Region of the People’s Republic of China
“Main Board”	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt the Main Board excludes GEM
“MDL”	Mega Datatech Limited, incorporated in Macao with limited liability and a fellow subsidiary of the Company
“MET”	MET Electronic Technology Company Limited, incorporated in Macao with limited liability

"OCR"	the Optical Character Recognition
"PRC"	the People's Republic of China, but for the purposes of this report and for geographical reference only, excludes Taiwan, Macao and Hong Kong
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
"Share(s)"	the ordinary shares of the Company of HK\$0.10 each
"United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"USA"	the United States of America
"VHL"	Vodatel Holdings Limited, incorporated in the British Virgin Islands with limited liability and a fellow subsidiary of the Company
"VNHL"	Vodatel Networks Holdings Limited, incorporated in Bermuda with limited liability, the ultimate holding company of the Company and whose shares are listed on GEM
"VNHL Share(s)"	the ordinary shares of VNHL of HK\$0.01 each
"VSCL"	Vodatel Services and Consultant Limited, incorporated in Macao with limited liability
"Zetronic"	Zetronic Communications (Macao) Limited, incorporated in Macao with limited liability