



# MegaInfo Holdings Limited

(Incorporated in Bermuda with limited liability)

*Third Quarterly Report 2005*



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast 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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*This report, for which the directors of MegaInfo Holdings Limited (“Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to Company. The directors of the Company (“Directors”), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*



## HIGHLIGHTS

- Turnover for the Nine-Month Period amounted to approximately HK\$9.2 million (2004: HK\$8.1 million), representing an increase of approximately 14.6% over corresponding period during 2004.
- With the write-off of goodwill in relation to the perpetual exclusive licence of the Tianxin software, loss attributable to shareholders recorded at approximately HK\$18 million for the Nine-Month Period.
- Successfully secured a landmark contract in the amount of HK\$19.7 million from a telecommunications service provider in Macao for the provision and installation of gaming equipments and related services for the 4th East Asian Games.
- The Board does not recommend payment of an interim dividend for the Nine-Month Period.

## THIRD QUARTERLY RESULTS

The board of Directors ("Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ("Three-Month Period") and the nine months ended 31 March 2005 ("Nine-Month Period") together with the comparative unaudited figures of the corresponding period in 2004 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

*For the three and nine months ended 31 March 2005*

		Three months ended 31 March		Nine months ended 31 March	
		2005	2004	2005	2004
<i>Note</i>		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover	2	<b>1,479,264</b>	3,327,137	<b>9,236,341</b>	8,057,181
Cost of sales		<b>(1,390,967)</b>	(2,705,173)	<b>(7,051,797)</b>	(6,364,584)
Gross profit		<b>88,297</b>	621,964	<b>2,184,544</b>	1,692,597
Other revenue		<b>11,329</b>	3,087	<b>26,348</b>	3,503
Selling and administrative expenses		<b>(3,176,123)</b>	(1,949,659)	<b>(10,267,594)</b>	(4,573,093)
Loss from operation		<b>(3,076,497)</b>	(1,324,608)	<b>(8,056,702)</b>	(2,876,993)
Impairment of goodwill	6	<b>(9,900,000)</b>	–	<b>(9,900,000)</b>	–
Finance costs		–	(1,544)	–	(1,579)
Loss attributable to shareholders		<b>(12,976,497)</b>	(1,326,152)	<b>(17,956,702)</b>	(2,878,572)
Basic loss per share	5	<b>2.426 cents</b>	0.248 cents	<b>3.356 cents</b>	0.538 cents



Notes:

**(1) Basis of preparation of the accounts**

The unaudited condensed consolidated accounts have been prepared in accordance with the Statement of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The condensed consolidated accounts have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

The accounting policies and methods of computation used in the preparation of the unaudited condensed accounts are consistent with those used in the audited financial statement for the year ended 30 June 2004.

**(2) Turnover**

The Group is principally engaged in the provision of digital image processing management solutions and products maintenance services in mainland China ("China") and the Macao Special Administration Region of the People's Republic of China ("Macao").

**(3) 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 both the periods ended 31 March 2005 and 2004.

**(4) Dividend**

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

**(5) Loss per share**

The calculation of basic loss per share for the Three-Month Period and the Nine-Month Period is based on the unaudited net loss of approximately HK\$12,976,497 and HK\$17,956,702 respectively (three months and nine months ended 31 March 2004: net loss of HK\$1,326,152 and HK\$2,878,572 respectively) and the weighted average number of 535,000,000 ordinary shares in issue (2004: 535,000,000) during the periods.

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

## (6) Impairment of goodwill

The impairment charge for the goodwill, which is a software licence acquired from independent third parties in December 2003 for the development of certain enterprise resources planning software, had been made in the accounts since future economic benefits attributable to this licence were uncertain.

## (7) Share capital and reserves

	Share capital	Share premium	Exchange reserve	Contributed surplus	Accumulated losses	Total
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 July 2004 (audited)	5,350,000	20,576,560	(42,978)	11,108,399	(6,588,899)	30,403,082
Exchange differences in translation of accounts of overseas subsidiaries	-	-	(23,382)	-	-	(23,382)
Loss attributable to shareholders	-	-	-	-	(17,956,702)	(17,956,702)
At 31 March 2005	5,350,000	20,576,560	(66,360)	11,108,399	(24,545,601)	(12,422,998)
At 1 July 2003 (unaudited)	106,380	5,400,000	-	-	-	5,506,380
Issue of shares	23,620	-	-	-	-	23,620
Loss attributable to shareholders	-	-	-	-	(2,878,572)	(2,878,572)
Placing share	1,300,990	31,223,771	-	-	-	32,524,761
Share issuance costs	-	(9,683,768)	-	-	-	(9,683,768)
Shares swap in accordance with the re-organization	3,919,010	(17,897)	-	5,608,399	-	9,509,512
At 31 March 2004	5,350,000	26,922,106	-	5,608,399	(2,878,572)	35,001,933



## MANAGEMENT DISCUSSION AND ANALYSIS

### *Business Review – Macao*

The successful implementation of the one-stop e-government project for the Macao Government has certainly allowed the Group to gain valuable experience and to establish our reputation as a well-rounded integrated enterprise solution provider within the Macao Government and the territory. With the one-stop e-government project being an important reference site, the Group has secured another landmark project during the Three-Month Period from Companhia de Telecomunicações de Macau S.A.R.L. (CTM) for the supply and installation of gaming applications and related services, including project management, system integration and support services, for the 2005 Macao 4th East Asian Games, which will be held in Macao in October 2005. Value of this contract was approximately HK\$19.7 million, thus, together with other projects previously awarded, including the Automatic Vehicle Clearance System and the Automatic Passenger Clearance System from the Macao Government, orders on hand stood strongly at approximately HK\$33.6 million as at 31 March 2005. With the completion of these projects to take place before end of 2005, management expects the financial performance of the Group to improve during the second half of 2005.

Promotion and active marketing of the *Mega* series branded products and services to customers in Macao and China continued to be underway. In connection with the promotion of the Group's products and services, the Group has also been carefully evaluating the requirements of the market and its customers, including the government, commercial enterprises, gaming operators, telecom operators, etc, and seek to improve features and technical capabilities of our products, or introduce new products to accommodate and better fit their needs. During the Three-Month Period, the Group has upgraded *MegaECM* and *MegaERP* by encompassing functionalities such as communication mobility platform. With enhanced features, management believes that the enhanced products will be more receptive and accepted by customers in the marketplace and will bring in better business opportunities in Macao and China.



## ***Business Review – China***

During the Three-Month Period, the Group exercised the option to take ownership of Tianxin ERP software from Zhuhai Tianxin Business Software Limited, a wholly-owned subsidiary of eForce Holdings Limited. With such ownership, the Group repositioned *MegaERP*, which has been evolved based on the original Tianxin ERP software, in the market and adopted a new sales and marketing strategy to promote it in China – by offering off-the-shelf enterprise resources planning solution with quality and user-friendly features and functionalities to different classes of customers at competitive and affordable pricing.


During the period, *MegaERP* gained various awards in China, including the 2004 年企業信息化十大影響力產品 from 支點網, the 2004 中國製造業信息化高速成長 IT 企業 and the 2004 中國製造業信息化優秀推廣產品 from e-works. These awards strongly represented product acceptance and acknowledgement of the quality of *MegaERP* and the status of MegalInfo in China.

## ***Financial Position and Operating Performance Review***

### *Turnover and Profitability*

During the Nine-Month Period, attributable to various projects from the Macao Government, including the one-stop e-government project from Instituto para os Assuntos Cívicos e Municipais (“IACM”), the Group reported consolidated turnover of approximately HK\$9.2 million, representing an increase of 14.6% over the corresponding period for the nine months ended 31 March 2004 of approximately HK\$8.1 million. The Group also registered an improvement in the gross profit margin from 21.0% for nine months ended 31 March 2004 to 23.6% for the Nine-Month Period.





With the exercise of the option to take ownership of the Tianxin software, management took a prudent view by writing off in full the intangible assets that pertained to the perpetual exclusive licence of the Tianxin software. As a result of the goodwill impairment, the Group recorded consolidated net loss of HK\$18 million for the Nine-Month Period. Despite disappointing results for the past nine months, the Group has successfully secured various contracts during the Three-Month Period with total contracts on hand as at 31 March 2005 amounted to approximately HK\$33.6 million.

In addition to securing new business, cost control over the operations in Macao and China will continue to be an on-going exercise for the Group. The Group will carefully monitor its cash position, profit and loss status of each project, and sales & marketing strategies. Management of the Group believes that, only with new business and improved operating margins, will the Company turn around going forward.

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

As at 31 March 2005, the interests and short positions of the Directors and chief executive in the ordinary shares of the Company ("Shares"), underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.66 of the GEM Listing Rules, to be notified to the Company and the Exchange, were 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 (note)	326,617,500	61.05%

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

**(ii) Aggregate long 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)	–	14,002,000	2.28%
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 ERL and the entire issued share capital in ERL was in turn held by a company wholly owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust. VNHL was under an obligation to issue a total of 14,002,000 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 ERL.
- (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 31 March 2005, 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%
ERL	(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 ("Gofull")	(3)	Long position	Corporate interest	74,632,500	-	13.95%
eForce Holdings						
Limited ("eForce")	(3)	Long position	Corporate interest	74,632,500	-	13.95%
Tees Corporation						
("Tees")	(3)	Long position	Corporate interest	74,632,500	-	13.95%
Mr. Leung Chung Shan	(3)	Long position	Personal interest	74,632,500	-	13.95%



*Notes:*

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

## **OTHER INTERESTS DISCLOSEABLE UNDER THE SFO**

Save as disclosed in the preceding paragraphs headed “Directors and chief executives’ interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation” and “Substantial shareholders’ interests and short positions in the Shares, underlying Shares of the Company”, so far as is known to the Directors, there is no other person or company who has an interest or short position in the shares, underlying shares or debentures of the Company that is discloseable under the SFO as at 31 March 2005.



## DISCLOSURE OF TRADING BALANCE ARISING FROM SALES TRANSACTIONS CONDUCTED BY THE GROUP IN ITS ORDINARY COURSE OF BUSINESS

The following disclosure is made in pursuant to Rules 17.15 and 17.22 of the GEM Listing Rules.

As at 31 March 2005, the following trade receivable from the following customer of the Group (“Trade Receivable”) arose as a result of the issue of invoice by the Company to that customer, and the Trade Receivable exceed 8% of the unaudited consolidated total asset value of the Group as at 31 March 2005:

<b>Customer</b>	<b>Amount due to the Group</b>	<b>% of the unaudited consolidated total asset value of the Group as at 31 March 2005</b>
IACM	MOP 3,381,434 (equivalent to about HK\$3,282,946)	8.6%

IACM is independent of, and is not connected with, the Company or its subsidiaries, the Directors, chief executives or substantial shareholders of the Company and its subsidiaries or their respective associates (as defined in the GEM Listing Rules).

The Trade Receivable was resulted from the entering into of a contract to install the document imaging and management systems for IACM by the Group in its ordinary and usual course of business and on normal commercial terms. It is unsecured and interest free. IACM will pay to the Group for its purchases upon successful user acceptance and reliability test in accordance with terms of the contract.



## **SPONSOR'S INTEREST**

Pursuant to the agreement dated 30 December 2003 entered into between the Company and CSC Asia Limited ("Sponsor"), the Sponsor has received and will receive a fee for acting as the Company's Sponsor for the period from 19 January 2004 to 30 June 2006.

None of the Sponsor and its 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 31 March 2005.

## **COMPETING INTERESTS**

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

## **AUDIT COMMITTEE**

The Company has established an audit committee ("Committee") with written term of reference in compliance with GEM Listing Rules. The Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive Directors, namely Mr. Chui Sai Cheong, Mr. Tsui Wai Kwan and Mr. Tam Pak Yip. The Group's financial statements for the Nine-Month Period have been reviewed by the audit committee who was of the opinion that such financial statements complied with applicable accounting standards, the GEM Listing Rules, and that adequate disclosures had been made.



## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

## **BOARD PRACTICES AND PROCEDURES**

During the Nine-Month Period, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules.

During the Nine-Month Period, the Company and the Directors were also in compliance with the standard of dealings set out in rules 5.48 to 5.67 of GEM Listing Rules.

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

The Hong Kong Special Administrative Region of  
the People's Republic of China, 12 May 2005