Annual Report 2005

MegaInfo Holdings Limited
萬佳訊控股有限公司

(Incorporated in Bermuda with limited liability)

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 the 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 the 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the 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 the GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with the GEM and no assurance is given that there will be a liquid market in the securities traded on the GEM.

The principal means of information dissemination on the 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 the GEM-listed issuers.

Contents

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

Authorised Representatives
Mok Chi Va
Wong Chit Lung Philip, CPA, CPA (U.S.)

Company Secretary
Wong Chit Lung Philip, CPA, CPA (U.S.)

Qualified Accountant
Wong Chit Lung Philip, CPA, CPA (U.S.)

Compliance Officer
Mok Chi Va

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

Auditors
Deloitte Touche Tohmatsu
Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road
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
Room 713B, 7/F, Block B
Seaview Estate
2-8 Watson Road
North Point
Hong Kong
Tel: (852) 2587 8628
Fax: (852) 2587 8380

Website
http://www.megainfo.com.cn

Bankers
Banco Comercial de Macau
DBS 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

Headquartered in the Macao Special Administration Region of the People's Republic of China ("Macao"), MegaInfo Holdings Limited ("Company") is an indirectly subsidiary of GEM-listed Vodatel Networks Holdings Limited ("VNHL"). Engaged in the provision of enterprise solutions for targeted customers in Macao and the People's Republic of China, other than the region of Hong Kong, Macao and Taiwan ("PRC"), the Company and its subsidiaries (collectively the "Group" or "MegaInfo") specialises 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) and *MegaERP* (enterprise resource planning application), 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, governmental authorities, hospitals and enterprises in Macao and the PRC.

Dear Shareholders,

This is the second annual report of MegaInfo since its listing on GEM during January 2004. This year has been a mixed, yet challenging, year for the Company – a year where Macao has offered unlimited business opportunities and a year where we have reached out to the markets in the PRC, yet such prospects which over HK$46 million worth of contracts secured as at today, have not yet been translated into solid figures in our income statement. We, therefore, have finished a year with turnover of HK$14.3 million, representing an increase of a mere 36.5% over last year, and net loss of HK$22.6 million.

Macao can certainly be described to be at a strategic reflection point – the convergence of strong and growing demands boosted by the opening up of the gaming industry and investments made by the Macao Government, challenging resources allocation and a need for greater diversity to accommodate business needs from the massive influx of investments, and a complex environment and shifting competitive landscape that shaped the mentality and focus of local demands and expectations. While many industries benefited from the robust economic growth of Macao in the past year, including us, we have flexibly adjusted our focus to capitalise on these business opportunities.

With the strong commitment of the Macao Government in the development and promotion of e-government to improve administrative services and processes, we have actively participated in the development of software infrastructure in the territory . Our involvement in these projects have allowed us to support the Macao Government in the planning and development of an overall software platform for Macao, marking a vital step taken by MegaInfo in the building of a preferred position as the solution partner. We have also capitalised the opportunity to successfully commercialise and embed the various modules of the Group's applications into the core software backbone of Macao.

To alleviate resource demands as a result of strong economic momentum, we have combined separate teams within the Group to create a simple organisation and to capture efficiencies. We have combined the cost effective research and development team in the PRC to support the business potential and prospects in Macao. This move, not only has translated to resources being put to use in maximisation, but stronger competency and optimisation of resources and technology across the company.

In addition, optimisation of business potential occurred. The experience gained from the participation in the software infrastructure has allowed us to build a governmental resources planning platform that is applicable not only to the Macao Government, but governmental bureaus in the PRC.

Last year, we mentioned that we conduct our business based on four simple, but vital, principles, namely Selection, Quality Services, Value and Investing in People. We will continue to follow these principles, but flexibly adjust our strategies so that the right strategies will be executed effectively at the right time.

The prospects of Macao are indisputable. Looking forward, with a strong foundation in the territory, our growth opportunities are excellent. We look forward to the opportunities we face in the coming years, moreover, we do look forward to the continuous support of our shareholders and suppliers, and of course, our dedicated employees, for success is having the right people doing the right thing at the right time.

José Manuel dos Santos
16th September, 2005

REVIEW OF BUSINESS ACTIVITIES

Macao – A year of unlimited business opportunities

The past year in Macao has been a year with robust business opportunities and a year whereby the Macao Government invested heavily in the promotion of e-government for the local territory as a means to improve the overall efficiency of administrative services and processes and in the effective dissemination of government information to citizens and tourists. The investments made by the Macao Government are also to complement the mandate to promote and enhance the image of Macao as an international destination for leisure, hospitality and in the hosting of sporting events, meetings, conferences and exhibitions.

With roots in Macao and capitalising on the strong momentum of the mandate of the Macao Government to strengthen the image of the territory, the Group has been actively participating the construction of various software infrastructural projects in Macao. During the year, the Group successfully completed the implementation of the one-stop e-government project for the civic and municipal affairs bureau of the Macao Government, allowing over 100 administrative services and processes offered by the Macao Government to be centralised and easily accessible by the citizens via web or call centre. The Group has also completed another e-government project for the public administration and civil service bureau, allowing a web based media for the Macao Government in the dissemination of latest information to citizens and tourists, thus increasing awareness and assisting in the promotion of new local attractions and hot spots. In addition to these two landmark e-government projects, the Group has participated in other infrastructural projects to enhance the tourism industry of Macao and to support the hosting of major events, including the automatic vehicle clearance system for the customs service bureau and the automatic passenger clearance system for the public security force, both systems of which are designed to effectively assist the monitoring, controlling and patrolling of inbound and outbound custom clearance of vehicles and passengers at various borders and major ports in Macao.

These infrastructural projects, in addition to bringing in revenue to the Group, have allowed the Group to enhance and greatly expand the applications of the various modules in its own developed products, for example, *MegaImage, MegaDMS and MegaERP*. Moreover, these projects have offered opportunities to the Group to participate in the development of software infrastructure in the territory and are a means to demonstrate to the Macao Government the experience and capability of the Group.

These infrastructural projects undertaken by the Macao Government have also translated to initial steps taken to erect a governmental resources planning platform for fast and efficient administrative processes and effective distribution and access of information, not only to citizens or tourists, but also a gateway to the business sectors to truly position Macao as an integrated international centre for leisure, hospitality and major events. In this respect, the Group has therefore built from the expertise in system integration and project management brought over from our parent company, Vodatel Holdings Limited ("VHL"), to strategically participate in the construction of software and system infrastructure that supported entertainment and sporting events – with the goals to expand the revenue base of the Group and build a solid base of premium customers, comprising the Macao Government, hotel and gaming operators, so as to allow cross selling opportunities of the other applications and services of the Group.

The Group has secured various contracts from the upcoming East Asian Games, including a project for the supply and installation of gaming applications and related services, such as project management, system integration and support services, and other projects to install extra-low voltage ("ELV") systems for the shooting range centre and the news and media centre. Aggregate of these projects amounted to approximately HK$40 million of turnover for the upcoming financial year. Concurrently, we have also targeted the entertainment section and have secured various contracts to install ELV systems at various hotels with a total of approximately HK$4 million of contracts awarded.

PRC – A year of reaching out

During the year, the Group has successfully completed the installation and integration of *MegaImage* with the operating support systems of various bureaus of Guangdong China Mobile. Although the Group has had challenges in the integration process, causing delays to the completion of these projects, these challenges have translated to opportunities for the Group to gain field experience and to enhance and enrich the functionalities and features of *MegaImage* to better fit the business and operating environment of telecommunications operators. With successful projects as reference sites, the Group has continued the marketing of *MegaImage* to other bureaus of China Mobile and, leveraging on the relationship network of VHL, to promote the application to various bureaus of China Telecom. Projects from different bureaus of Guangdong China Mobile and Guangdong China Telecom were registered.

With respect to the marketing of *MegaERP* in the PRC, the Group has deployed a new marketing strategy during the year to promote the enterprise resource planning ("ERP") application by establishing a network of resellers to tap the mass market. To complement this new strategy, in addition to participating in various IT exhibitions, the Group has also partnered with local IT educational institutes in selected cities to build the "School of ERP" by setting up training centres and laboratories to provide ERP software training to resellers, enterprises and academics – a means to promote a broader knowledge and usage of *MegaERP*.

To maximise the experience and expertise gained from the participation of the various infrastructural projects in Macao and leveraging the active promotion of business activities in the Pearl River Delta Region, the Group has commenced the promotion of the governmental resources planning platform to the various governmental bureaus in the PRC by partnering with reputable local companies. Collaboration arrangement with Beijing Redflag Linux, who has strong relationship network and has been supporting IT infrastructure of various governmental bureaus in the PRC in different provinces and municipalities, is currently under discussion.

REVIEW OF OPERATING RESULTS

Turnover and Profitability

As anticipated, Macao remained the major revenue contributor of the Group, with approximately 80% of its total turnover derived from business opportunities in Macao. Although a handful of contracts from the Macao Government and hotel operators were secured during the year ended 30th June, 2005, as completion of these projects was expected to be end of 2005 or early 2006, therefore, the Group registered turnover of approximately HK$14.3 million for the year, representing a mere increase of 36.5% over the corresponding financial year.

In view of hardware and software mix of each project to vary based on nature of the project and customers' specifications and with hardware carrying lower margin than software, gross profit margin showed a decline from 27.8% to 15.1%. Nevertheless, based on the hardware and software mix of the various contracts on hand, management anticipated the overall gross profit margin for the next financial year to improve.

Loss for the year widened to approximately HK$22.6 million, explained primarily by the write-off of the perpetual licences for the Tianxin software of approximately HK$9.9 million and an increase of headcount and related administrative expenses to support the various projects secured in Macao and the research and development ("R&D") activities. However, with revenue of most of the projects on hand expected to be booked in the next financial year, improved gross margin and careful cost control exercises, management is of the view that the operating results of the Group would improve.

Capital Resources and Liquidity

Net cash and bank balances as at 30th June, 2005 were HK$11.3 million, with a debt-free capital structure. Worth noting was the cash management of the Group to strive to maintain back-to-back payment terms with its suppliers.

Capital Commitments and Significant Investments

As at 30th June, 2005, the Group did not have any significant capital commitments and significant investments.

Charges on Group Assets

As at 30th June, 2005, the Group did not have any charges on the assets of the Group.

Foreign Exchange Exposure

As at 30th June, 2005, the Group held cash and bank deposits denominated in Hong Kong Dollars, Renminbi and 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 Patacas, which is considered as a stable currency under the control of the Macao Government, the Group faced minimal exchange rate risk during the year.

Contingent Liabilities

As at 30th June, 2005, the Group did not have any material contingent liabilities.

Employees' Information

As of 30th June, 2005, the Group had 58 (2004: 49) full-time employees in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), Macao and the PRC. Total staff costs (excluding Directors' emoluments) amounted to approximately HK$5.7 million, attributable to an increase in headcount to accommodate the business and research and development activities in Macao and the PRC.

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 salary, the Group also offers to its employees other fringe benefits including stock options, provident fund, social security fund and medical benefits.

BUSINESS OBJECTIVES FOR THE YEAR UNDER REVIEW AS SET OUT IN THE PROSPECTUS	ACTUAL BUSINESS PROGRESS FOR THE YEAR UNDER REVIEW
Complete the development of the system mobile accessibility and the web-based services accessibility of *MegaMax*	Completed. Final testing in progress with full version of *MegaMax* expected to be ready for launch during early 2006
Commence the R&D of *MegaLab,* an imaging processing solution for the medical sector which allows record of patients to be scanned, indexed, digitalised and encrypted, allowing various units within the hospital to share, have access and manage the records	In progress. An upgraded version of *MegaLab* with improved image storage quality and functionalities, including scanning, indexing, sharing and managing patients' records, under enhancement and expected to be completed during early 2006
Complete the development of *MegaOffice*	Completed. Final testing in progress with full version of *MegaOffice* expected to be ready for launch during early 2006
Continue the promotion and marketing activities in previous periods	Strong marketing and promotional activities continued to be underway, targeting the Macao Government, hotel and gaming operators in Macao and fixed-line telecommunications service and mobile service providers in the Guangdong Province and Shanghai
Launch and promote *MegaOffice* to various departments under the Macao Government and public utilities companies	Various seminars on *MegaOffice* to different enterprises, public utilities companies and the Macao Government have been conducted, with feedback gathered from potential customers being thoroughly reviewed and studied. The Group is currently in the process of enhancing existing and integrating new features to the application so as to further improve the efficiency and effectiveness of office work flow

BUSINESS OBJECTIVES FOR THE YEAR UNDER REVIEW AS SET OUT IN THE PROSPECTUS	ACTUAL BUSINESS PROGRESS FOR THE YEAR UNDER REVIEW
Launch and promote the integrated and advanced version of the *Mega-ERP/ECM* applications to enterprises in the Guangdong Province, Shanghai and the Shandong Province, the PRC	Various market surveys have been conducted and numerous discussions have been made with potential distributors of *MegaERP* in different major provinces and municipalities, including the Guangdong Province and Shanghai, with responses to strengthen its marketability received, reviewed and studied. The Group is currently in the process of upgrading *MegaERP* with mobile communications capacity using the newly developed mobile communications platform and the upgraded version is expected to be completed by end of 2005
Launch and commence promotion of the upgraded *MegaMax*	Final testing in progress with full version of *MegaMax* expected to be ready for launch during early 2006
Commence the promotion of upgraded *MegaImage* to fixed-line telecommunications service providers in the Guangdong Province and Shanghai, the PRC	Marketing presentations of the upgraded *MegaImage* have been made to fixed-line telecommunications service providers in the Guangdong Province, with positive response received
Identify appropriate distributors to promote *MegaLab* to hospitals and laboratories in Shanghai and the Grangdong Province, the PRC	Various potential distributors of *MegaLab* have been identified and discussions with them are in progress to promote the application in the Guangdong Province and Shanghai
Participate in one major IT exhibition in the PRC to promote the Group's enterprise solutions	Subsequent to evaluation of the effectiveness of various IT exhibitions to be held in the PRC during the year, decision has been made to participate in a major IT exhibition in Shenzhen during October, 2005

BUSINESS OBJECTIVES FOR THE YEAR UNDER REVIEW AS SET OUT IN THE PROSPECTUS	ACTUAL BUSINESS PROGRESS FOR THE YEAR UNDER REVIEW
Evaluate the need of setting up new representative offices in other provinces (subject to the business requirements of the Group) to handle customers' enquiries and provide after-sales support services	The setup of technical support centres in Guangzhou and Shanghai is under review
Apply for quality assurance certification for *Mega-ERP/ECM* and *MegaOffice* applications from an independent software centre in the PRC	Pending testing and independent evaluation of *MegaImage* by the CEPREI Certificate Body, an independent software centre in the Guangdong Province
Finalise the collaboration arrangement with either R&D institute of a university or a software company in the PRC to engage in R&D of new enterprise solutions	Discussions with a software company in Beijing to form a partnership are underway for development of new enterprise solutions and in the joint promotion of the *Mega* branded products in the PRC
Target to acquire a software company in the PRC that will strengthen the Group's R&D capability and complement the Group's integrated range of enterprise solutions	Under review and to be in line with the Group's strategic directions in product development and market positioning

The Group raised approximately HK$20.4 million from the listing of the ordinary shares of the Company on GEM.

Comparison of the use of proceeds at stated in the Prospectus with actual application.

USE OF PROCEEDS AS STATED IN THE PROSPECTUS	APPLICATION OF PROCEEDS FROM THE INITIAL ORDINARY SHARE OFFER ON 19TH JANUARY, 2004
Approximately HK$0.4 million for R&D of new products under the Group's own brand name	Approximately HK$0.4 million for marketing research and recruitment of additional software engineers to engage in R&D of new products and upgrades
Approximately HK$0.9 million for business development, expansion of the Group's marketing team and participation in IT exhibitions	Approximately HK$0.4 million for recruitment of new sales representatives to the marketing teams and participation in various IT exhibitions in Macao, Shenzhen and Guangzhou
Approximately HK$1.2 million for expansion of geographical presence in the PRC	The Group is in the process of evaluating the setting up of technical support centres in Guangzhou and Shanghai
Approximately HK$0.2 million for application for quality assurance certifications for the Group's products	The application of quality assurance certifications has been postponed
Approximately HK$1.0 million for development of collaboration arrangement with universities and software companies	The Group has set up training centres and laboratories to provide ERP software training to resellers, enterprises and academics. Budgeted expense for training material is approximately HK$0.5 million

EXECUTIVE DIRECTORS

Mr. José Manuel dos Santos, aged 57, 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 Serviçāo de Correios e Telecommunicações, the telecommunications authority of Macao for many years, prior to the founding of Zetronic Communications (Macau) Limited ("Zetronic") and subsequently VNHL. He is also an executive director of VNHL.

Mr. Mok Chi Va, aged 40, 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 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 an operation manager for about one year, and Tung Tat E&M Engineering Co. Limited as a project manager for four years.

Mr. Kuok Cheong Ian, aged 57, is the Director in charge of the overall software R&D. 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. Before joining the Group, Mr. Kuok worked for a number of companies including Heng Va Company Limited ("Heng Va") and Talent Rank Limited as the technical director and general manager respectively.

NON-EXECUTIVE DIRECTORS

Mr. Yim Hong, aged 47, 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 20 years' experience in the IT industry, he joined VHL on 1st September, 1998. Prior to joining VHL, 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 a 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 40, 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. Chui Sai Cheong, aged 51, was appointed as an independent non-executive Director on 23rd September, 2004. He is a certified public auditor, 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. Mr. Chui is a member of several key governmental committees both in PRC and Macao. They include the National Committee of the Chinese People's Political Consultative Conference ("CPPCC"), the Committee for the Basic Law of Macao under the Standing Committee of the National People's Congress, the Executive Committee & Standing Committee of All-China Federation of Industry & Commerce, the Legislative Assembly of Macao, the Preparatory Committee of Macao, the Selection Committee for the first Government and the Election Committee of the second Macao Government. Mr. Chui also holds several prominent positions in professional bodies including the Macau Chamber of Commerce (Vice President of Board of Directors), the Macau Management Association (President), and the Association of Economic Sciences of Macau (President). Mr. Chui is the independent non-executive director of VNHL, Innovo Leisure Recreation Holdings Limited, Pearl Oriental Enterprises Limited and Cheung Tai Hong Holdings Limited.

Mr. Tsui Wai Kwan, aged 57, 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 45, 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 All-China Federation of Industry & Commerce; 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.

SENIOR MANAGEMENT

Mr. Robert Cedric Ruggles, aged 47, is the business development manager of the Group. He graduated from University of Sunderland in the United Kingdom with a Master degree in Business Administration. He joined VHL on 1st April, 2002 as the business development manager and has been transferred to the Group since July 2003. Prior to joining VHL, he had worked for Printrak International Inc. responsible for providing domestic and international technical support, and Motorola Asia Pacific Limited as a solutions engineering manager.

Mr. Chui Yiu Sui, aged 36, is the software development manager of the Group. He holds a degree of Bachelor of Arts awarded by Asia International Open University (Macau). He joined Mega Datatech Limited ("MDL"), an indirect wholly-owned subsidiary of VNHL, on 1st July, 1993. Prior to joining MDL, he had worked for Heng Va for six years as a programmer/system analyst. Mr. Chui has been transferred to the Group since 1st July, 2003.

Mr. Kam Sai Cheong, aged 40, is the business development manager of the Group. 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 an assistant sales manager. Mr. Kam has been transferred to the Group since 1st July, 2003.

Mr. Wong Chit Lung Philip, aged 33, 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, Australia, and a Bachelor of Arts degree in Economics from the University of Western Ontario, Canada. Prior to joining the Group in June 2004, Mr. Wong worked in an international accounting firm and multi-national telecommunications enterprises.

The directors of the Company ("Directors") present their annual report and the audited financial statements of the Company and the Group for the year ended 30th June, 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries and an associate are set out in notes 15 and 16 respectively to the financial statements.

RESULTS

The results of the Group for the year ended 30th June, 2005 are set out in the consolidated income statement on page 28.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group for the year are set out in note 25 to the financial statements and in the consolidated statement of changes in equity respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FINANCIAL SUMMARY

A summary of the results of the Group and of the assets and liabilities of the Group for the past 3 financial period/years from 10th December, 2002 (date of incorporation) is set out on page 60.

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

Non-executive Directors

Mr. Yim Hong
Mr. Kuan Kin Man

Independent non-executive Directors

Mr. Tsui Wai Kwan
Mr. Tam Pak Yip
Mr. Chui Sai Cheong (appointed on 23rd September, 2004)

In accordance with Article 87 of the Company's Bye-laws, Mr. Mok Chi Va and Mr. Kwok Cheong Ian retire by rotation at the forthcoming annual general meeting and, 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 others 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 others at least three months' notice in writing.

Other than as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements, no contract of significance to which the Company, any of its holding companies, subsidiaries or fellow 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 SHARES, UNDERLYING SHARES AND CONVERTIBLE BONDS

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

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

Name of Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. José Manuel dos Santos	Held by controlled corporation *(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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND CONVERTIBLE BONDS *(Continued)*

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

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

Notes:

(1) These VNHL shares were held in the name of ERL and the entire issued share capital in ERL was in turn held by a company wholly-owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust.

(2) Mr. José Manuel dos Santos was the beneficial owner of such interest in VNHL shares.

(3) Mr. Kuan Kin Man was the beneficial owner of such interest in VNHL shares.

(4) Mr. Yim Hong was the beneficial owner of such interest in VNHL shares.

(5) The 20,000 VNHL shares was held by the spouse of Mr. Mok Chi Va and Mr. Mok Chi Va was deemed to be interested in such VNHL shares. Mr. Mok Chi Va was the beneficial owner of the remaining interest in VNHL shares.

Other than as disclosed above, none of the Directors, chief executives nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 30th June, 2005.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

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

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

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

(1) Lois Resources Limited was deemed to be interested in 326,617,500 shares by virtue of its interest in ERL. ERL owned more than one third of the issued share capital of VNHL which in turn owned the entire issued share capital of VHL. 326,617,500 shares were beneficially owned by VHL.

(2) Ms. Lei Hon Kin, the spouse of Mr. José Manuel dos Santos, was deemed to be interested in 326,617,500 shares which were deemed to be interested by Mr. José Manuel dos Santos.

(3) eForce was deemed to be interested in 74,632,500 shares by virtue of its interest in Gofull. Tees owned more than one third of the issued share capital of eForce. Mr. Leung Chung Shan owned the entire issued share capital of Tees. 74,632,500 shares were beneficially owned by Gofull.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2005.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 30 to the financial statements.

No share option under the above scheme has been granted since the adoption of the scheme.

MANAGEMENT CONTRACT

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 were as follows:

Purchases	
– the largest supplier	12.90%
– five largest suppliers combined	38.14%
Sales	
– the largest customer	58.90%
– five largest customers combined	79.02%

At no time during the year did the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) have an interest in any of the Group's five largest suppliers or customers.

CORPORATE GOVERNANCE

Throughout the year ended 30th June, 2005, the Company has complied with the Board Practices and Procedures set out in Rules 5.34 to 5.45 of the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January, 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 30th June, 2006.

During the year, the Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

AUDIT COMMITTEE

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

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

The Group's financial statements for the year ended 30th June, 2005 have been reviewed by the Committee who was of the opinion that such financial statements complied with applicable accounting standards, the GEM Listing Rules, and that adequate disclosures had been made.

During the year, the Committee has held 4 meetings and has reviewed the Company's draft annual, interim and quarterly financial reports and accounts prior to recommending such reports and accounts to the Board for approval.

SPONSOR'S INTEREST

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

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

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

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

INTERESTS IN COMPETING BUSINESS

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DONATION

During the year, the Group made charitable donation amounting to HK$10,000.

DISCLOSURE OF ADVANCES TO ENTITIES ARISING FROM TRADING TRANSACTIONS CONDUCTED BY THE GROUP IN ITS ORDINARY COURSE OF BUSINESS

The following disclosure is made pursuant to Rules 17.15, 17.17 and 17.22 of the GEM Listing Rules:

Entities	Notes	Amount	Nature
Instituto para os Assuntos Cívicos e Municipais ("IACM")	1	MOP3,391,495 (equivalent to HK$3,292,714)	Trade receivable
Master King International Limited ("Master King")	2	MOP9,000,000 (equivalent to HK$8,737,864)	Deposits payment

Notes:

1. The balances of trade receivable due from IACM, a bureau under the Macao Government, arose as a result of the issue of sale invoices by a subsidiary of the Company to IACM, and such trade receivable represented approximately 10.2% of the audited consolidated total assets of the Group as at 30th June, 2005. It is unsecured, interest free and has no fixed repayment terms. IACM is independent of, and is not connected with, the Company, any of its holding companies, subsidiaries or fellow 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).

2. The amount represented non-refundable deposit paid to Master King, a subcontractor of the Group, for the purchase of certain gaming equipment and application services in respect of a project secured by the Group. As at 30th June, 2005, such amount was recognised as "Deposits paid to vendors for contracts" under "Other Receivables, Deposits and Prepayments" and represented approximately 27.3% of the audited consolidated total assets of the Group as at 30th June, 2005. Master King is independent of, and is not connected with, the Company, any of its holding companies, subsidiaries or fellow 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).

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 34 to the financial statements.

AUDITORS

For the past financial periods, except for the current year from 1st July, 2004 to 30th June, 2005 in which Messrs. Deloitte Touche Tohmatsu acted as auditors of the Company, Messrs. PricewaterhouseCoopers have acted as auditors of the Company for the financial periods from 10th December, 2002 (date of incorporation) to 30th June, 2004.

A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

José Manuel dos Santos
Chairman

Hong Kong
16th September, 2005

TO THE MEMBERS OF
MEGAINFO HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 28 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30th June, 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
16th September, 2005

Consolidated Income Statement

For the year ended 30th June, 2005

	Notes	2005 HK$	2004 HK$
Turnover	4	**14,289,721**	10,465,492
Cost of sales		**(12,125,708)**	(7,559,171)
Gross profit		**2,164,013**	2,906,321
Bank interest income		**35,523**	3,130
Impairment loss recognised in respect of software licences		**(9,900,000)**	–
Impairment loss recognised in respect of goodwill		**(482,693)**	–
Selling expenses		**(186,543)**	(97,971)
Administrative expenses		**(14,245,763)**	(9,398,765)
Loss from operations	6	**(22,615,463)**	(6,587,285)
Finance costs	7	**(6,171)**	(1,614)
Loss before taxation		**(22,621,634)**	(6,588,899)
Income tax	10	**–**	–
Net loss for the year		**(22,621,634)**	(6,588,899)
Basic loss per share	11	**4.23 cents**	1.41 cents

At 30th June, 2005

	Notes	2005 HK$	2004 HK$
Non-current assets			
Property, plant and equipment	12	**1,604,617**	1,499,380
Software licences	13	**–**	10,761,527
Goodwill	14	**–**	541,201
Investment in an associate	16	**14,272**	–
		1,618,889	12,802,108
Current assets			
Inventories	17	**3,917,964**	3,993,514
Trade receivables	18	**3,559,012**	4,100,080
Amount due from a customer for contract work	19	**754,694**	–
Other receivables, deposits and prepayments	20	**10,873,397**	1,422,501
Bank balances and cash	21	**11,329,719**	16,015,256
		30,434,786	25,531,351
Current liabilities			
Trade payables	22	**659,279**	1,088,687
Other payables, accruals and deposits received	23	**23,419,374**	4,473,801
Deferred revenue		**224,050**	224,050
Bank overdrafts		**–**	2,143,839
		24,302,703	7,930,377
Net current assets		**6,132,083**	17,600,974
		7,750,972	30,403,082
Capital and reserves			
Share capital	24	**5,350,000**	5,350,000
Reserves		**2,400,972**	25,053,082
		7,750,972	30,403,082

The financial statements on pages 28 to 59 were approved and authorised for issue by the Board on 16th September, 2005 and are signed on its behalf by:

José Manuel dos Santos
Director

Mok Chi Va
Director

Balance Sheet

At 30th June, 2005

	Notes	2005 HK$	2004 HK$
Non-current asset			
Investments in subsidiaries	15	**6,886,475**	28,564,824
Current assets			
Deposits and prepayments		**91,700**	22,500
Bank balances and cash		**529,038**	6,378,405
		620,738	6,400,905
Current liabilities			
Other payables and accruals		**485,340**	465,000
Bank overdrafts		**–**	230,923
		485,340	695,923
Net current assets		**135,398**	5,704,982
		7,021,873	34,269,806
Capital and reserves			
Share capital	24	**5,350,000**	5,350,000
Reserves	25	**1,671,873**	28,919,806
		7,021,873	34,269,806

José Manuel dos Santos
Director

Mok Chi Va
Director

	Share capital HK$	Share premium HK$	Exchange reserve HK$	Contributed surplus HK$	Accumulated losses HK$	Total HK$
At 1st July, 2003	100,000	5,400,000	–	(5,523,620)	–	(23,620)
Issue of shares in a subsidiary for purchase of software licences	–	–	–	11,000,000	–	11,000,000
Issue of shares arising from the Reorganisation *(note 24(a)(ii))*	30,000	–	–	–	–	30,000
Issue of shares in a subsidiary for acquisition of a business	–	–	–	132,019	–	132,019
Capitalisation issue *(note 24(b))*	4,016,250	(4,016,250)	–	–	–	–
Issue of shares by placing and public offer *(note 24(c))*	1,203,750	28,890,000	–	–	–	30,093,750
Share issuance costs	–	(9,697,190)	–	–	–	(9,697,190)
Exchange differences on translation of the financial statements of foreign subsidiaries not recognised in income statement	–	–	(42,978)	–	–	(42,978)
Wavier of amount due to immediate holding company	–	–	–	5,500,000	–	5,500,000
Net loss for the year	–	–	–	–	(6,588,899)	(6,588,899)
At 30th June, 2004	5,350,000	20,576,560	(42,978)	11,108,399	(6,588,899)	30,403,082
Exchange differences on translation of the financial statements of foreign subsidiaries not recognised in income statement	–	–	(30,476)	–	–	(30,476)
Net loss for the year	–	–	–	–	(22,621,634)	(22,621,634)
At 30th June, 2005	5,350,000	20,576,560	(73,454)	11,108,399	(29,210,533)	7,750,972

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.

Consolidated Cash Flow Statement

For the year ended 30th June, 2005

	Notes	2005 HK$	2004 HK$
OPERATING ACTIVITIES			
Loss from operations		**(22,615,463)**	(6,587,285)
Adjustments for:			
Impairment loss recognised in respect of software licences		**9,900,000**	–
Impairment loss recognised in respect of goodwill		**482,693**	–
Depreciation of property, plant and equipment		**503,113**	382,630
Amortisation of software licences		**861,527**	705,763
Amortisation of goodwill		**58,508**	43,881
Interest income		**(35,523)**	(3,130)
Operating cash flows before movements in working capital		**(10,845,145)**	(5,458,141)
Decrease (increase) in inventories		**75,550**	(3,993,514)
Decrease (increase) in trade receivables		**541,068**	(1,900,240)
Increase in amount due from a customer for contract work		**(754,694)**	–
Increase in other receivables, deposits and prepayments		**(9,450,896)**	(1,363,199)
Decrease in amount due from immediate holding company		**–**	5,506,380
(Decrease) increase in trade payables		**(429,408)**	1,062,236
Increase in other payables, accruals and deposits received		**18,945,573**	4,467,006
Cash used in operations		**(1,917,952)**	(1,679,472)
Interest received		**35,523**	3,130
Interest paid		**(6,171)**	(1,614)
NET CASH USED IN OPERATING ACTIVITIES		**(1,888,600)**	(1,677,956)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(608,350)**	(1,780,651)
Purchase of software licences		**–**	(467,290)
Acquisition of the Business	26	**–**	(1,840,164)
Acquisition of subsidiaries	27	**–**	(716,104)
Investment in an associate		**(14,272)**	–
CASH USED IN INVESTING ACTIVITIES		**(622,622)**	(4,804,209)
FINANCING ACTIVITIES			
Proceeds on issue of shares		**–**	30,093,750
New bank loans raised		**–**	194,175
Shares issuing expenses		**–**	(9,697,190)
Repayment of bank loans		**–**	(194,175)
NET CASH FROM FINANCING ACTIVITIES		**–**	20,396,560

	Notes	2005 HK$	2004 HK$
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(2,511,222)**	13,914,395
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**13,871,417**	–
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(30,476)**	(42,978)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**11,329,719**	13,871,417
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**11,329,719**	16,015,256
Bank overdrafts		**–**	(2,143,839)
		11,329,719	13,871,417

1. COMPANY REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 22nd January, 2003 as an exempted company under the Companies Act 1981 of Bermuda (as amended) and its shares have been listed on the GEM on 19th January, 2004.

Pursuant to a group reorganisation ("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 interests in the Group respectively and the equity interests 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. Details of the Reorganisation are set out in the Prospectus of the Company dated 31st December, 2003.

Accordingly, the Reorganisation had been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the companies comprising the Group throughout the accounting year ended 30th June, 2004 presented.

The Directors regard Vodatel Networks Holdings Limited ("VNHL"), a company incorporated in Bermuda, as the ultimate holding company of the Company.

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries and an associate are set out in notes 15 and 16 respectively.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

During the year, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 30th June, 2005.

HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any business combination for which the agreement date is on or after 1st January, 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 30th June, 2005.

The Group has considered these new HKFRSs but does not expect that the issuance of these HKFRSs will have a material impact on how its results of operations and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th June each year.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight-line basis over its estimated useful life, and will be charged to the income statement at such time as the goodwill is determined to be impaired.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Investment in an associate

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, investment in an associate is stated at the Group's share of net assets of the associate.

Revenue recognition

Revenue from the "one-stop project" entered into with a Macao government authority for the provision of digital image processing management solutions is recognised when the outcome of the contract can be estimated reliably and the stage of completion at the balance sheet date can be measured reliably. Revenue from this fixed priced "one-stop project" is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for the contract.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from other projects for the provision of computer software products and digital image processing management solutions is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when 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 from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

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

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Software licences

The expenditure for acquisition of software licences is measured initially at cost and amortised on a straight-line basis over their estimated useful lives or licensing period, whichever is shorter.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or expenses in the year in which the operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and an associate, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement.

Construction contracts

When the outcome of a construction contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction contracts *(Continued)*

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenue of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when the contracts were negotiated as a single package and they are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under trade receivables.

Inventories

Inventories, including any materials for the construction contracts, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realised value represents the estimated selling price in the ordinary course of business less estimated costs to completion and the estimated costs necessary to make the sale.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

Retirement benefits costs

Payments to defined contribution retirement plans/Mandatory Provident Fund scheme and state-managed retirement benefit schemes are charged as expenses as they fall due.

4. TURNOVER

Turnover represents the net amounts received and receivable from sale of computer software products and provision of digital image processing management solutions and maintenance services by the Group to outsider customers for the year, and is analysed as follows:

	2005	2004
	HK$	HK$
Provision of digital image processing management solutions for "one-stop project" under construction contracts	**8,787,212**	2,260,137
Sale of computer software products and related services	**5,502,509**	8,205,355
	14,289,721	10,465,492

5. SEGMENT INFORMATION

The Group is principally engaged in the provision of digital image processing management solutions in Macao and the PRC.

The Directors present the geographical segment as the Group's primary segment information.

There are no sales between the geographical segment.

Geographical segment – Primary reporting segment

The following table provides an analysis of the Group's sales by geographical markets:

Income statement

	Macao		The PRC		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$	**HK$**	HK$
Turnover	**11,322,670**	10,359,949	**2,967,051**	105,543	**14,289,721**	10,465,492
Segment results	**(7,071,489)**	(2,693,702)	**(1,534,516)**	(1,975,087)	**(8,606,005)**	(4,668,789)
Unallocated income					**–**	1,530
Unallocated expenses					**(14,009,458)**	(1,920,026)
Loss from operations					**(22,615,463)**	(6,587,285)
Finance costs					**(6,171)**	(1,614)
Loss before taxation					**(22,621,634)**	(6,588,899)
Income tax					**–**	–
Net loss for the year					**(22,621,634)**	(6,588,899)

Balance sheet

	Macao		The PRC		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$	**HK$**	HK$
Segment assets	**28,021,492**	17,616,939	**3,397,172**	3,554,088	**31,418,664**	21,171,027
Investment in an associate					**14,272**	–
Unallocated assets					**620,739**	17,162,432
Consolidated total assets					**32,053,675**	38,333,459
Segment liabilities	**23,648,795**	6,866,738	**168,568**	367,716	**23,817,363**	7,234,454
Unallocated liabilities					**485,340**	695,923
Consolidated total liabilities					**24,302,703**	7,930,377

5. SEGMENT INFORMATION *(Continued)*

Other information

	Macao		The PRC		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	HK$	HK$	**HK$**	HK$	**HK$**	HK$
Capital expenditures						
– allocated	**478,369**	1,774,062	**129,981**	29,433	**608,350**	1,803,495
– unallocated	**–**	–	**–**	–	**–**	11,467,290
Depreciation	**476,502**	371,075	**26,611**	11,555	**503,113**	382,630
Amortisation charge						
– allocated	**–**	–	**58,508**	43,881	**58,508**	43,881
– unallocated	**–**	–	**–**	–	**861,527**	705,763
Impairment loss recognised in respect of software licences						
– unallocated	**–**	–	**–**	–	**9,900,000**	–
Impairment loss in respect of goodwill	**–**	–	**482,693**	–	**482,693**	–

Business segment – Secondary reporting 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 for both years.

6. LOSS FROM OPERATIONS

	THE GROUP	
	2005	2004
	HK$	HK$
Loss from operations has been arrived at after charging:		
Auditors' remuneration	**480,000**	465,000
Cost of inventories recognised as expenses	**11,475,638**	5,489,487
Depreciation of property, plant and equipment	**503,113**	382,630
Amortisation charge (included in administrative expenses)		
– software licences	**861,527**	705,763
– goodwill	**58,508**	43,881
	920,035	749,644
Operating lease rentals in respect of		
– land and buildings	**511,626**	428,990
– equipment	**–**	21,000
	511,626	449,990
Net foreign exchange loss	**26,772**	25,221
Software development fees	**–**	480,000
Staff costs, including Directors' remunerations *(Note 8)*		
Fees, salaries, discretionary bonus and other benefits	**7,490,305**	4,768,942
Social security cost	**250,466**	142,280
Retirement benefits scheme contributions	**21,352**	9,000
	7,762,123	4,920,222

The staff costs included staff costs incurred on research and development which amounted to HK$1,749,456 (2004: HK$664,720).

7. FINANCE COSTS

The amount represents interest on bank loans and overdrafts wholly repayable within five years.

8. DIRECTORS' REMUNERATION

For the year ended 30th June, 2005

	Executive Directors			Non-executive Directors		Independent non-executive Directors			
	Mr. José Manuel dos Santos HK$	Mr. Mok Chi Va HK$	Mr. Kuok Cheong Ian HK$	Mr. Yim Hong HK$	Mr. Kuan Kin Man HK$	Mr. Chui Sai Cheong HK$	Mr. Tsui Wai Kwan HK$	Mr. Tam Pak Yip HK$	Total 2005 HK$
Fees	130,000	130,000	130,000	60,000	60,000	92,667	120,000	120,000	842,667
Other emoluments									
Salaries and other benefits	520,000	325,000	325,000	–	–	–	–	–	1,170,000
Social security costs	–	393	393	–	–	–	–	–	786
Total emoluments	650,000	455,393	455,393	60,000	60,000	92,667	120,000	120,000	2,013,453

For the year ended 30th June, 2004

	Executive Directors			Non-executive Directors		Independent non-executive Directors			
	Mr. José Manuel dos Santos HK$	Mr. Mok Chi Va HK$	Mr. Kuok Cheong Ian HK$	Mr. Yim Hong HK$	Mr. Kuan Kin Man HK$	Mr. Chui Sai Cheong HK$	Mr. Tsui Wai Kwan HK$	Mr. Tam Pak Yip HK$	Total 2004 HK$
Fees	65,000	65,000	65,000	32,500	32,500	–	65,000	65,000	390,000
Other emoluments									
Salaries and other benefits	260,000	214,750	151,855	–	–	–	–	–	626,605
Discretionary bonus	–	130,000	–	–	–	–	–	–	130,000
Social security costs	–	525	524	–	–	–	–	–	1,049
Total emoluments	325,000	410,275	217,379	32,500	32,500	–	65,000	65,000	1,147,654

During the year, no emoluments were paid by the Group to any of the Directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year.

9. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2004: two) were Directors whose emoluments are included in note 8 above. The emoluments of the remaining two (2004: three) highest paid individuals were as follows:

	2005 HK$	2004 HK$
Salaries and other benefits	**778,817**	801,581
Discretionary bonus	**47,328**	150,600
Social security cost	**393**	1,048
Retirement benefits scheme contributions	**12,000**	9,000
	838,538	962,229

The aggregate emoluments of each of their emoluments for both years were within the emoluments band ranging from nil to HK$1,000,000.

During both years, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

No provision for profits tax has been made in the financial statements as the Group has no assessable profits in the jurisdictions in which the Group operates for both years.

The taxation for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2005 HK$	2004 HK$
Loss before taxation	**(22,621,634)**	(6,588,899)
Tax at the Macao Complementary Tax rate of 15.75%	**(3,562,907)**	(1,037,752)
Tax effect of income not taxable for tax purpose	**(164,463)**	–
Tax effect of expenses not deductible for tax purpose	**346,521**	10,867
Effect of tax exemptions granted	**(141,536)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**36,829**	(44,517)
Tax effect of tax losses not recognised	**3,485,556**	1,071,402
Taxation for the year	**–**	–

10. INCOME TAX *(Continued)*

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from the PRC income tax either for two years or two years starting from their first profit-making year, followed by a 50% reduction for the next three years. No provision for the PRC income tax has been made in the financial statements as all of the PRC subsidiaries were exempted from the PRC income tax during the year.

On 7th July, 2005, the Macao tax authority announced the change of Macao Complementary Tax rate from 15.75% to 12% and the change of the tax rate was effective for the accounting periods beginning on or after 1st January, 2004.

At the balance sheet date, the Group has estimated tax losses of approximately HK$28,310,000 (2004: HK$6,508,000), out of which the estimated unused tax losses of HK$7,594,000 (2004: HK$3,275,000) are available for offset against future profits. No deferred tax asset has been recognised in respect of such estimated tax losses due to unpredictability of future profit streams. Included in unrecognised estimated unused tax losses are losses of HK$2,925,000 (2004: HK$2,062,000) that will expire within 5 years. Other estimated unused tax losses of HK$4,669,000 (2004: HK$1,213,000) may be carried forward indefinitely.

11. BASIC LOSS PER SHARE

The calculation of loss per share is based on the Group's loss for the year of HK$22,621,634 (2004: HK$6,588,899) and 535,000,000 (2004: weighted average of 468,381,507) shares in issue during the year.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Computer equipment	Demonstration equipment	Furniture, fixtures and equipment	Total
	HK$	HK$	HK$	HK$	HK$
THE GROUP					
COST					
At 1st July, 2004	1,447,087	193,056	209,600	37,144	1,886,887
Additions	102,563	494,234	–	11,553	608,350
At 30th June, 2005	1,549,650	687,290	209,600	48,697	2,495,237
DEPRECIATION					
At 1st July, 2004	285,117	46,767	38,370	17,253	387,507
Provided for the year	292,337	129,465	69,860	11,451	503,113
At 30th June, 2005	577,454	176,232	108,230	28,704	890,620
NET BOOK VALUES					
At 30th June, 2005	**972,196**	**511,058**	**101,370**	**19,993**	**1,604,617**
At 30th June, 2004	1,161,970	146,289	171,230	19,891	1,499,380

13. SOFTWARE LICENCES

	HK$
THE GROUP	
COST	
At 1st July, 2004 and 30th June, 2005	11,467,290
AMORTISATION AND IMPAIRMENT	
At 1st July, 2004	705,763
Amortisation for the year	861,527
Impairment loss recognised in the income statement	9,900,000
At 30th June, 2005	11,467,290
NET BOOK VALUES	
At 30th June, 2005	–
At 30th June, 2004	10,761,527

The amount represents the expenditure for acquiring the software licences which are amortised on a straight-line basis over the estimated useful life of 10 years, or the licensing period of 1 year, whichever is shorter.

An impairment loss of HK$9,900,000 (2004: nil) in respect of the software licences has been recognised for the year with reference to the recoverable amount since the Directors are of the opinion that the future economic benefits attributable to the software licenses are uncertain.

14. GOODWILL

	HK$
THE GROUP	
COST	
At 1st July, 2004 and at 30th June, 2005	585,082
AMORTISATION AND IMPAIRMENT	
At 1st July, 2004	43,881
Charged for the year	58,508
Impairment loss recognised	482,693
At 30th June, 2005	585,082
NET BOOK VALUES	
At 30th June, 2005	–
At 30th June, 2004	541,201

14. GOODWILL *(Continued)*

The goodwill is amortised on a straight-line basis over the estimated useful life of 10 years.

An impairment loss of HK$482,693 (2004: nil) in respect of the goodwill arising from acquisition of a subsidiary in prior years has been recognised in the current year since the subsidiary continued to incur significant losses.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$	HK$
Unlisted shares, at cost	**9,585,979**	9,585,979
Less: impairment loss recognised	**(4,000,000)**	–
	5,585,979	9,585,979
Amounts due from subsidiaries	**1,300,496**	18,978,845
	6,886,475	28,564,824

The amounts due from subsidiaries are unsecured, interest-free and in the opinion of the Directors, the amounts will not be repaid within the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

Details of the Company's subsidiaries at 30th June, 2005 are set out as follows:

Name of subsidiary	Class of share held	Form of business structure	Place of incorporation or registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company Directly %	Indirectly %	Principal activities
MegaInfo Limited	Ordinary	Incorporated	British Virgin Islands	Macao	2,000 shares of US$1 each	100	–	Investment holding and provision of digital image processing management solutions
MegaInfo China Holdings Limited	Ordinary	Incorporated	British Virgin Islands	The PRC	1,000 shares of US$1 each	–	100	Investment holding

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Class of share held	Form of business structure	Place of incorporation or registration	Principal place of operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held by the Company Directly %	Indirectly %	Principal activities
MegaInfo Software Limited	Ordinary	Incorporated	British Virgin Islands	Macao	1,000 shares of US$1 each	–	100	Owner of intellectual property rights
MegaInfo Solutions Holdings Limited	Ordinary	Incorporated	British Virgin Islands	The PRC	1,000 shares of US$1 each	–	100	Owner of intellectual property rights
MegaInfo (Hong Kong) Limited	Ordinary	Incorporated	Hong Kong	Hong Kong	1,000 ordinary shares of HK$0.10 each	–	100	Investment holding
MegaInfo Technology Limited	Ordinary	Incorporated	Hong Kong	Hong Kong	1,000 ordinary shares of HK$1 each	–	100	Investment holding
PE Research and Development Limited	Ordinary	Incorporated	Macao	The PRC	2 quotas of MOP12,500 each	–	100	Investment holding
Zhuhai MegaSoft Software Development Co., Ltd. 珠海萬佳達軟件開發有限公司	Capital contribution	Wholly-foreign owned enterprise	The PRC	The PRC	Registered capital of HK$3.2 million	–	100	Provision of computer software products, computer network system engineering, research and development and selling and providing related services and maintenance
Megainfo (Guangzhou) Technology Company Limited 廣州市萬珈訊科技有限公司	Capital contribution	Wholly-foreign owned enterprise	The PRC	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

None of the subsidiaries had issued any debt securities during the year and at the balance sheet date.

16. INVESTMENT IN AN ASSOCIATE

	THE GROUP	
	2005	2004
	HK$	HK$
Share of net assets	**14,272**	–

As at 30th June, 2005, the Group had an interest in the following associate:

Name of entity	Form of business structure	Place of incorporation/ operation	Class of share held	Proportion of issued share capital held by the Group %	Nature of business
CTM-Mega Technology Limited	Incorporated	Macao	Ordinary	49	Not yet commenced business

17. INVENTORIES

	THE GROUP	
	2005	2004
	HK$	HK$
At cost:		
Networking and image processing equipment	**3,917,964**	3,993,514

18. TRADE RECEIVABLES

At 30th June, 2005, the aged analysis of the Group's trade receivables is as follows:

	THE GROUP	
	2005	2004
	HK$	HK$
Less than 30 days	**72,905**	18,948
31 to 60 days	**146**	2,260,135
91 to 120 days	**1,020,346**	–
121 to 365 days	**1,054,547**	–
Over 365 days	**1,411,068**	1,820,997
	3,559,012	4,100,080

18. TRADE RECEIVABLES *(Continued)*

The credit terms granted to customers vary and are generally the result of negotiations between the individual customers of the Group. As at 30th June, 2005, among the outstanding receivable balances over 365 days was the amount of HK$166,350 (2004: HK$1,820,997) due from a fellow subsidiary, Guangzhou Vodatel Development Limited.

19. AMOUNT DUE FROM A CUSTOMER FOR CONTRACT WORK

	THE GROUP	
	2005	2004
	HK$	HK$
Contracts in progress at the balance sheet date		
Contracts costs incurred less recognised losses	**11,047,350**	2,260,137
Less: progress billings	**(10,292,656)**	(2,260,137)
	754,694	–
Represented by:		
Due from a customer included in current assets	**754,694**	–

20. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2005	2004
	HK$	HK$
Deposits paid to vendors for contracts	**9,980,037**	90,467
Prepayments	**692,173**	1,092,000
Utility and guarantee deposits	**166,148**	240,034
Other receivables	**35,039**	–
	10,873,397	1,422,501

21. BANK BALANCES AND CASH

THE GROUP

At 30th June, 2005, there were bank balances and cash denominated in Renminbi ("RMB") amounting to HK$2,055,993 (2004: HK$128,394) respectively. RMB is not freely convertible into other currencies.

22. TRADE PAYABLES

At 30th June, 2005, the aged analysis of the Group's trade payables is as follows:

	THE GROUP	
	2005	2004
	HK$	HK$
Less than 30 days	**252,128**	1,088,687
121 to 365 days	**407,151**	–
	659,279	1,088,687

23. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

	2005	2004
	HK$	HK$
Deposits received from customers for contracts	**21,792,592**	3,504,854
Accrued charges	**854,408**	957,744
Other payables	**772,374**	11,203
	23,419,374	4,473,801

24. SHARE CAPITAL

	No. of ordinary shares	HK$
Authorised:		
At 1st July, 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 (a)(i))*	9,000,000	–
Increase in authorised ordinary share capital of HK$0.01 each *(Note (a)(i))*	990,000,000	9,900,000
At 30th June, 2004 and 30th June, 2005, HK$0.01 each	1,000,000,000	10,000,000

24. SHARE CAPITAL *(Continued)*

	No. of ordinary shares	HK$
Issued and fully paid:		
At 1st July, 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 (a)(i))*	9,000,000	–
Issue of shares arising from the Reorganisation, HK$0.01 each *(Note (a)(ii))*	3,000,000	30,000
Capitalisation issue, HK$0.01 each *(Note (b))*	401,625,000	4,016,250
Issue of shares by placing and public offer, HK$0.01 each *(Note (c))*	120,375,000	1,203,750
At 30th June, 2004 and 30th June, 2005, HK$0.01 each	535,000,000	5,350,000

Notes:

(a) 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 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 MegaInfo Limited from VHL and Gofull respectively.

(b) 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.

(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.

There was no movement in the Company's share capital for the current year.

25. RESERVES

	THE COMPANY			
	Share premium HK$	**Contributed surplus** HK$ (Note a)	**Accumulated losses** HK$	**Total** HK$
At 1st July, 2003	5,400,000	–	–	5,400,000
Contributed surplus arising from the Reorganisation	–	4,055,979	–	4,055,979
Capitalisation issue *(note 24(b))*	(4,016,250)	–	–	(4,016,250)
Issue of shares *(note 24(c))*	28,890,000	–	–	28,890,000
Share issuance costs	(9,697,190)	–	–	(9,697,190)
Waiver of amount due to the immediate holding company	–	5,500,000	–	5,500,000
Net loss for the year	–	–	(1,212,733)	(1,212,733)
At 30th June, 2004	20,576,560	9,555,979	(1,212,733)	28,919,806
Net loss for the year	–	–	(27,247,933)	(27,247,933)
At 30th June, 2005	20,576,560	9,555,979	(28,460,666)	1,671,873

(a) 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 immediate holding company of the subsidiaries 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.

(b) As at 30th June, 2005, the Company has no reserves available for distribution to shareholders (2004: HK$8,343,246).

26. ACQUISITION OF THE BUSINESS

	2005	2004
	HK$	HK$
Net assets acquired		
Property, plant and equipment	–	22,844
Trade receivables	–	2,199,840
Trade payables	–	(26,451)
Deferred revenue	–	(224,050)
	–	1,972,183
Satisfied by		
Allotment of shares in a subsidiary *(Note)*	–	132,019
Cash	–	1,840,164
	–	1,972,183

Note: On 23rd December, 2003, an aggregate of 820 shares of US$1.00 each in MegaInfo 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. Accordingly, HK$6,380 and HK$125,639 have been credited as share capital and share premium of MegaInfo Limited respectively.

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

	2005	2004
	HK$	HK$
Cash consideration	–	(1,840,164)
Bank balances and cash on hand acquired	–	–
Net cash outflow in respect of the acquisition of the Business	–	(1,840,164)

27. ACQUISITION OF SUBSIDIARIES

	2005	2004
	HK$	HK$
Net assets acquired		
Property, plant and equipment	–	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 in 2004 incurred HK$1,807,194 as part of the Group's net operating cash outflows and paid HK$280,374 in respect of investing activities.

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

	2005	2004
	HK$	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)

28. MAJOR NON-CASH TRANSACTIONS

(i) In the year ended 30th June, 2004, the share capital arising from the transactions as described in note 24(a) was deemed to have been in issue throughout the accounting year presented in the financial statements in accordance with the Company Reorganisation and basis of preparation as set out in note 1.

(ii) In the year ended 30th June, 2004, 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, MegaInfo 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 Licences. Accordingly, HK$2,800 and HK$10,997,200 had been credited as share capital and share premium of MegaInfo 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.

29. RETIREMENT BENEFITS SCHEMES

The Group participates in employee social security plans as required by the regulations in the PRC and Macao. The Group also participates in Mandatory Provident Fund scheme which are available to all qualified employees of the Group in Hong Kong. The assets of the retirement benefits schemes are held separately from those of the Group, in funds under the control of the trustees. The employees of the subsidiaries in the PRC are members of social insurance schemes operated by the relevant local government authorities. The pensions plans are funded by payments from employees and by the relevant group companies. The amounts charged to the income statement represent contributions payable by the Group at the rates specified according to respective rules of the plans.

30. SHARE OPTION SCHEME

The Company's share option scheme ("Scheme") was adopted pursuant to a resolution passed on 18th November, 2004 for the primary purpose of providing incentives to the Directors and eligible participants (as defined in the Scheme), and will be expired 10 years commencing on the adoption of the Scheme.

Under the Scheme, the Board may at their discretion grant options to eligible employees, including the Directors and its subsidiaries, and certain consultants, suppliers or customers of the Group, to subscribe for shares in the Company from time to time. The maximum number of shares, which may be granted under the Scheme, shall not exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted under the Scheme to any individual in any one year is not permitted to exceed 1% of shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

30. SHARE OPTION SCHEME *(Continued)*

Options granted to a Director, the chief executive or substantial shareholder of the Company or any of their associates (as defined in the GEM Listing Rules) requires the approval of independent non-executive Directors (excluding an independent non-executive Director who is the prospective grantee in question). Options granted to substantial shareholders or independent non-executive Directors or their respective associates in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to a period to be notified by the Board to each grantee at the time of making such offer, which shall not expire later than 10 years from the date of grant.

The subscription price of the share option is determined by the Board and the amount will not be less than the higher of (a) the closing price of the Company's shares on the Exchange on the date of grant; (b) the average closing price of the Company's shares as stated in the daily quotation sheets issued by the Exchange for the 5 business days immediately preceding the date of grant; and (c) the nominal value of a share of the Company on the date of grant.

No option has been granted under the share option scheme since its adoption.

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005	2004
	HK$	HK$
Within one year	**106,024**	268,719
In the second to fifth year inclusive	**24,182**	–
	130,206	268,719

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for a term of one to four years and rentals are fixed over the lease period.

32. CONTINGENT LIABILITIES

At 30th June, 2005, the Company has given guarantee to a bank in respect of general banking facilities granted to its subsidiary amounting to HK$1,100,000. No facilities were utilised by the subsidiary as at 30th June, 2005.

At 30th June, 2004, neither the Group nor the Company have significant contingent liabilities.

33. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2005 **HK$**	2004 HK$
Sales to Mega Datatech Limited ("MDL") *(Note a)*	**284,363**	–
Purchases from Zetronic Communications (Macau) Limited *(Note b)*	**150,273**	16,398
Purchases from VHL *(Note c)*	**20,026**	–
Rental expenses payable to Mr. José Manuel dos Santos *(Note d)*	**180,000**	–
Software development fees payable to MET Electronic Technology Company, Limited ("MET") *(Note e)*	**–**	480,000
Rental expenses payable to Vodatel Services and Consultant Limited ("VSCL") for the use of office premises *(Note f)*	**–**	–

Notes:

(a) During the year, the Group sold goods to MDL, a wholly-owned subsidiary of VNHL in which Mr. José Manuel dos Santos has a beneficial interest.

(b) During the year, there were sales transactions conducted between a subsidiary of the Company and Zetronic Communications (Macau) Limited, a company incorporated in Macao, the interest of which was held as to 99% by Mr. José Manuel dos Santos and 1% by his spouse.

(c) During the year, the Group purchased goods from VHL, a wholly-owned subsidiary of VNHL in which Mr. José Manuel dos Santos has a beneficial interest.

(d) For the period from 1st January, 2005 to 30th June, 2005, the Company leased an office premises in Hong Kong from Mr. José Manuel dos Santos for a monthly rental of HK$30,000.

(e) In 2004, software development fees had been paid to MET, the beneficial interest of which was held by Mr. Kuok Cheong Ian. There were no transactions between MET and the Group after the appointment of Mr. Kuok Cheong Ian as the Company's Director since 16th December, 2003.

(f) During both years, 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 rental payment by the Group with effect from 1st July, 2003.

33. RELATED PARTY TRANSACTIONS *(Continued)*

The Directors are of the opinion that the transactions as described in Notes (a) to (e) above have been entered into and carried out in the ordinary and usual course of business of the Group, 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 Note (f) was on terms better than normal commercial terms to the Group and is fair and reasonable and in the interest so far as of the shareholders of the Company as a whole.

34. POST BALANCE SHEET EVENTS

The Directors have taken various active steps to improve the profitability and liquidity of the Group. Up to the date of the financial statements, the Group has confirmed orders on hand with aggregate contract sum of approximately HK$46,000,000 and revenue for these contracts will be recognised in the coming years. In addition, the Directors are currently taking active steps in pursuing other new contracts.

RESULTS

	2005 HK$	2004 HK$	10th December 2002 to 30th June 2003 HK$
Turnover	**14,289,721**	10,465,492	–
Operating loss	**(12,232,770)**	(6,587,285)	–
Impairment loss recognised in respect of software licences	**(9,900,000)**	–	–
Impairment loss recognised in respect of goodwill	**(482,693)**	–	–
Finance costs	**(6,171)**	(1,614)	–
Net loss for the year	**(22,621,634)**	(6,588,899)	–

ASSETS AND LIABILITIES

	2005 HK$	2004 HK$	2003 HK$
Total assets	**32,053,675**	38,333,459	–
Total liabilities	**24,302,703**	7,930,377	6,380
Shareholders' equity	**7,750,972**	30,403,082	6,380