



# MegaInfo Holdings Limited 萬佳訊控股有限公司

(Incorporated in Bermuda with limited liability)



Interim Report 2006

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

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

## HIGHLIGHTS

- Turnover for the Six-Month Period amounted to approximately HK\$41.5 million (2004: HK\$7.8 million), representing an approximately 5.3 times increase over corresponding period during 2004.
- Profit attributable to shareholders recorded at approximately HK\$2.3 million for the Three-Month Period. Achieved breakeven in the Group's profit for the Six-Month Period.
- Successfully completed all the projects for the East Asian Games, bringing in approximately HK\$19.7 million of turnover for the Six-Month Period.
- Secured a handful of contracts from the Government of Macao, gaming and hotel operators and various mobiles bureaus in the PRC. Total orders on hand as at 31 December 2005 amounted to HK\$17.4 million.
- The Board does not recommend payment of an interim dividend for the Six-Month Period.



## INTERIM RESULTS

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

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

For the three and six months ended 31 December 2005

	Note	Three months ended 31 December		Six months ended 31 December	
		2005 HK\$	2004 HK\$	2005 HK\$	2004 HK\$
Turnover	2	<b>36,287,936</b>	2,847,378	<b>41,458,051</b>	7,757,077
Cost of sales		<b>(30,204,260)</b>	(1,853,670)	<b>(34,483,987)</b>	(5,660,830)
Gross profit		<b>6,083,676</b>	993,708	<b>6,974,064</b>	2,096,247
Bank interest income		<b>13,993</b>	13,315	<b>48,550</b>	15,019
Selling and administrative expenses		<b>(3,776,018)</b>	(4,512,605)	<b>(7,012,938)</b>	(7,091,471)
Profit (Loss) attributable to shareholders	4	<b>2,321,651</b>	(3,505,582)	<b>9,676</b>	(4,980,205)
Basic earning (loss) per share	7	<b>0.434 cents</b>	(0.655 cents)	<b>0.002 cents</b>	(0.931 cents)

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 31 December 2005

	<i>Note</i>	<b>As at 31 December 2005 (unaudited) HK\$</b>	<b>As at 30 June 2005 (audited) HK\$</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>1,333,599</b>	1,604,617
Intangible assets		<b>8,800</b>	–
Investment in an associate	<i>8</i>	<b>14,272</b>	14,272
<b>Current assets</b>			
Inventories		<b>2,081,301</b>	3,917,964
Trade receivables	<i>9</i>	<b>16,601,195</b>	3,559,012
Amount due from a customer for contract work		–	754,694
Other receivables, deposits and prepayments		<b>1,507,454</b>	10,873,397
Bank balances and cash		<b>6,915,766</b>	11,329,719
		<b>27,105,716</b>	30,434,786
<b>Current liabilities</b>			
Trade payables	<i>10</i>	<b>16,708,496</b>	659,279
Other payables, accruals and deposits received		<b>3,811,977</b>	23,419,374
Deferred revenue		<b>130,700</b>	224,050
		<b>20,651,173</b>	24,302,703
<b>Net current assets</b>			
		<b>6,454,543</b>	6,132,083
		<b>7,811,214</b>	7,750,972
<b>Capital and reserves</b>			
Share capital	<i>11</i>	<b>5,350,000</b>	5,350,000
Reserves	<i>11</i>	<b>2,461,214</b>	2,400,972
		<b>7,811,214</b>	7,750,972



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

*For the Six-Month Period*

	Six months ended	
	31 December	
	2005	2004
	<i>HK\$</i>	<i>HK\$</i>
Total equity at the beginning of the period	7,750,972	30,403,082
Profit (Loss) for the period	9,676	(4,980,205)
Exchange differences arising on translation of the financial statements of foreign subsidiaries not recognized in profit and loss account	50,566	(23,382)
Total equity at the end of the period	<u>7,811,214</u>	<u>25,399,495</u>

**CONDENSED CONSOLIDATED CASHFLOW STATEMENT (UNAUDITED)***For the Six-Month Period*

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2005</b>	2004
	<b>HK\$</b>	<b>HK\$</b>
Net cash used in operating activities	<b>(2,079,180)</b>	(4,852,843)
Net cash used in investing activities	<b>(14,043)</b>	(36,769)
Net cash from financing activities	-	-
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	<b>(2,093,223)</b>	(4,889,612)
Cash and cash equivalents at beginning of the period	<b>8,958,423</b>	13,871,417
Effect of foreign exchange rate changes	<b>50,566</b>	(23,382)
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<b>6,915,766</b>	8,958,423
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>6,915,766</b>	8,958,423
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*Notes:*

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

The unaudited condensed consolidated accounts have been prepared in accordance with the requirements of the GEM Listing Rules, including compliance with the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

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

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standard (“HKFRS”) and HKAS herein collectively referred to as HKFRSs which are generally effective for the accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRS has no material effect on the Group’s financial statements.

**(2) Turnover**

Turnover represents the net amounts received and receivable from sales of computer software products and provision of digital image processing management solutions and maintenance services by the Group to outside customers during the periods, and is analysed as follows:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>31 December</b>		<b>31 December</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>(unaudited)</b>	(unaudited)	<b>(unaudited)</b>	(unaudited)
	<b>HK\$</b>	HK\$	<b>HK\$</b>	HK\$
Provision of digital image processing management solutions for “one-stop” project under construction contracts	<b>265,651</b>	–	<b>265,651</b>	3,507,318
Sale of computer software products and related services	<b>36,022,285</b>	2,847,378	<b>41,192,400</b>	4,249,759
	<b>36,287,936</b>	2,847,378	<b>41,458,051</b>	7,757,077



**(3) Segment information**

The Group is principally engaged in the provision of digital image processing management solutions in the People's Republic of China ("PRC"), excluding the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), the Macao Special Administrative Region of the People's Republic of China ("Macao") and Taiwan.

There are no sales between the geographical segment.

	<b>Six months ended</b> <b>31 December</b> <b>2005</b> <b>(unaudited)</b> <b>HK\$</b>	<b>2004</b> <b>(unaudited)</b> <b>HK\$</b>
Turnover		
PRC	<b>2,408,576</b>	2,580,623
Macao	<b>39,049,475</b>	5,176,454
	<b>41,458,051</b>	7,757,077
Segment results		
PRC	<b>(324,161)</b>	374,350
Macao	<b>1,716,772</b>	(3,608,020)
	<b>1,392,611</b>	(3,233,670)
Unallocated costs	<b>(1,382,935)</b>	(1,746,535)
Operating profit (loss)	<b>9,676</b>	(4,980,205)
Segment assets		
PRC	<b>1,575,629</b>	5,128,471
Macao	<b>26,155,663</b>	21,628,488
Investment in an associate	<b>14,272</b>	–
Unallocated assets	<b>716,823</b>	3,528,592
Total assets	<b>28,462,387</b>	30,285,551
Segment liabilities		
PRC	<b>575,168</b>	320,178
Macao	<b>19,894,005</b>	4,562,078
Unallocated liabilities	<b>182,000</b>	3,800
Total liabilities	<b>20,651,173</b>	4,886,056
Capital expenditures		
Macao	<b>5,243</b>	22,497
Unallocated	–	–
Amortization charge		
PRC	–	275,000
Unallocated	–	131,450
Depreciation		
PRC	<b>20,797</b>	10,580
Macao	<b>303,199</b>	218,880
	<b>323,996</b>	229,460



#### (4) Profit (Loss) attributable to shareholders

Profit (Loss) attributable to shareholders has been arrived at after crediting (charging):

	Three months ended 31 December		Six months ended 31 December	
	2005 (unaudited) HK\$	2004 (unaudited) HK\$	2005 (unaudited) HK\$	2004 (unaudited) HK\$
Cost of inventories recognized as expenses	30,204,260	1,853,670	34,483,987	5,660,830
Depreciation of property, plant and equipment	160,489	115,946	323,996	229,460
Amortization charge				
– goodwill	–	275,000	–	550,000
– software licences	–	131,450	–	262,899
Staff cost (including directors' remunerations)	2,354,246	2,522,595	4,357,103	3,729,835

#### (5) Taxation

No provision for profits tax has been made in the financial statements as the Group either incurred tax losses for the periods or its estimated assessable profit was wholly absorbed by the estimated tax losses brought forward in the jurisdiction in which the Group operates.

#### (6) Dividend

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

#### (7) Basic earning (loss) per share

The calculation of basic earning (loss) per share for the Three-Month Period and the Six-Month Period is based on the unaudited net profit of HK\$2,321,651 and HK\$9,676 respectively (three months and six months ended 31 December 2004: net loss of HK\$3,505,582 and HK\$4,980,205 respectively) and 535,000,000 ordinary shares in issue (2004: 535,000,000) during the periods.

#### (8) Investment in an associate

	31 December 2005 (unaudited) HK\$	30 June 2005 (audited) HK\$
Share of net assets	14,272	14,272

The Group holds a 49% interest in the issued share capital in CTM-Mega Technology Limited, a company incorporated in Macao, which has not commenced business yet.

**(9) Trade receivables**

At 31 December 2005, the aged analysis of the Group's trade receivables is as follows:

	<b>31 December 2005 (unaudited) HK\$</b>	30 June 2005 (audited) HK\$
Less than 30 days	<b>15,119,654</b>	72,905
31 to 60 days	<b>44,137</b>	146
91 to 120 days	<b>380,394</b>	1,020,346
121 to 365 days	<b>1,020,346</b>	1,054,547
Over 365 days	<b>36,664</b>	1,411,068
	<b><u>16,601,195</u></b>	<u>3,559,012</u>

**(10) Trade payables**

At 31 December 2005, the aged analysis of the Group's trade payables is as follows:

	<b>31 December 2005 (unaudited) HK\$</b>	30 June 2005 (audited) HK\$
Less than 30 days	<b>13,366,338</b>	252,128
31 to 60 days	<b>5,446</b>	-
61 to 90 days	<b>401,610</b>	-
91 to 120 days	<b>2,875,713</b>	-
121 to 365 days	<b>59,389</b>	407,151
	<b><u>16,708,496</u></b>	<u>659,279</u>

**(11) Share capital and reserves**

	Share capital HK\$	Share premium HK\$	Exchange reserve HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2005 (audited)	5,350,000	20,576,560	(73,454)	11,108,399	(29,210,533)	7,750,972
Exchange differences on translation of the financial statements of foreign subsidiaries not recognized in the profit and loss account	-	-	50,566	-	-	50,566
Profit for the period	-	-	-	-	9,676	9,676
At 31 December 2005	<u>5,350,000</u>	<u>20,576,560</u>	<u>(22,888)</u>	<u>11,108,399</u>	<u>(29,200,857)</u>	<u>7,811,214</u>
At 1 July 2004 (audited)	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 recognized in the profit and loss account	-	-	(23,382)	-	-	(23,382)
Loss for the period	-	-	-	-	(4,980,205)	(4,980,205)
At 31 December 2004	<u>5,350,000</u>	<u>20,576,560</u>	<u>(66,360)</u>	<u>11,108,399</u>	<u>(11,569,104)</u>	<u>25,399,495</u>

**(12) Related party transaction**

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

	<b>Six months ended 31 December</b>	
	<b>2005 (unaudited) HK\$</b>	<b>2004 (unaudited) HK\$</b>
Purchases from Mega Datatech Limited ("MDL") (Note a)	<b>528,919</b>	-
Purchase from Vodatel Holdings Limited ("VHL") (Note b)	<b>74,688</b>	-
Rental expenses payable to Mr. José Manuel dos Santos (Note c)	<b>180,000</b>	-

**Notes:**

- (a) During the period, the Group purchased goods from MDL, a wholly-owned subsidiary of Vodatel Networks Holdings Limited ("VNHL") in which Mr. José Manuel dos Santos has a beneficial interest.
- (b) During the period, the Group purchased goods from VHL, a wholly-owned subsidiary of VNHL in which Mr. José Manuel dos Santos has a beneficial interest.
- (c) For the Six-Month Period, the Company leased an office premise in Hong Kong from Mr. José Manuel dos Santos for a monthly rental of HK\$30,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the Six-Month Period, business activities in Macao remained in the spotlight. The East Asian Games was a great success for the Government of Macao and for the Group, with all the projects that the Group secured to support the East Asian Games successfully delivered, bringing in HK\$19.7 million of turnover for the Six-Month Period.

While working to complete the projects for the East Asian Games, during the Three-Month Period, the Group has geared its marketing efforts towards various gaming and hotel operators, so as to capitalize on the strong business momentum in Macao from the huge investments made by various gaming operators. During the period, in addition to the contracts previously secured during the first quarter, the Group has been awarded another handful of contracts for providing various extra-low voltage systems for a number of hotels, amenities and casinos. Total orders on hand amounted to approximately HK\$9.9 million.

In addition, to better position the Group in the gaming sector and with the aim to provide a total solution to the gaming operators, the Group has been partnering with its parent company, VHL, in tendering various projects, this strategy of which has proven to be successful. During the Three-Month Period, the Group has partnered with VHL in the bidding of three projects, results of which are expected during the third quarter.

The Group has also strengthened its market positioning within the Government of Macao and made some landmark achievements, including the provision of an integrated communications software system and *Megalmage* application to the Police and Judiciary Department and a *Megalmage* application for Civil Engineering Laboratory Bureau. Subsequent to the completion of the initial stage of the one-stop e-government public service solution for the Civic and Municipal Affairs Bureau ("IACM"), the Group has been awarded another contract from the bureau to develop an enhancement to the automatic queuing system of the one-stop e-government system, so to better improve the procedures of making reservations, and monitor queuing and waiting time. This is another feature that the Government of Macao introduced as a means to improve the overall efficiency in the provision of government services to the general public. Total contracts secured from the Government of Macao during the Three-Month Period totaled HK\$5.5 million.



In the PRC, while the research and development team continued to support the various software projects that the Group has secured in Macao, in particular, the contract from IACM, during the Three-Month Period, the Group has successfully promoted the *Megalmage* solution to the mobile bureaus in Yunfu and Zhaoqing and being awarded expansion projects of the *Megalmage* solution by the mobile bureaus in Shenzhen and Zhongshan, securing over HK\$1.0 million of new contracts.

In addition to projects, the Group has also been focusing on securing maintenance services contracts from its existing customers. During the Three-Month Period, the Group has been awarded by various customers in Macao and the PRC to provide maintenance services, with approximately HK\$1.0 million of maintenance contracts awarded. The Group's focus on maintenance services, not only is to ensure a stable and recurring source of income, but to maintain the relationship with its customers, putting the Group in an advantageous position in the event the customers required upgrades or expansion to their existing infrastructure.

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

### *Turnover and Profitability*

During the Six-Month Period, the Group reported consolidated turnover of approximately HK\$41.5 million, with turnover surging 5.3 times over the corresponding period for the six months ended 31 December 2004 of approximately HK\$7.8 million. Improved consolidated turnover for the Group was attributed primarily to projects completed for the East Asian Games, including the automatic vehicle clearance system, the automatic passenger clearance system, various systems and applications for the East Asian Games and the Government of Macao. As a result, the Group recorded a net profit of HK\$2.3 million for the Three-Month Period, and achieved a break-even level for the Six-Month Period.

### *Capital Resources and Liquidity*

Net cash and bank balances as at 31 December 2005 were HK\$6.9 million, with current cash on hands of approximately HK\$13.2 million. The total assets of the Group as at 31 December 2005 were HK\$28.5 million. There was no charge on the Group's assets as at 31 December 2005.

During the Six-Month Period, the Group maintained a debt-free capital structure. The Group financed its operations primarily with internally generated cashflows and the proceeds from listing.

### *Foreign Exchange Exposure*

As at 31 December 2005, the Group held cash and bank deposits denominated in Hong Kong Dollars, Renminbi, and Macao Patacas. Since all of its revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted substantially in Renminbi, which is not freely convertible into foreign currencies, and Macao Patacas, which is considered as a stable currency under the control of the Government of Macao, the Group faced minimal exchange rate risk during the period. The management of the Group considered that the new exchange rate control mechanism for Renminbi adopted in July 2005 does not have any material impact on the Group.

### *Employees' Information*

As at 31 December 2005, the Group had 48 employees (30 June 2004: 58) in Hong Kong, Macao and PRC. Total staff costs (excluding directors' emoluments) for the Six-Month Period amounted to approximately HK\$3.3 million.

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



## COMPARISON OF BUSINESS OBJECTIVES

### Business objectives for the period under review as set out in the prospectus

Continue to upgrade *Megalmage* and *MegaMax* with new and enhanced features based on latest market trends and customers' requirements.

Complete the development of *MegaLab*.

Continue the promotion and marketing activities in previous periods.

Identify appropriate distributors and with the appointed distributors, to promote *Megalmage* to mobile service providers in other provinces with strong demand for the Group's products.

Commence the promotion of upgraded *Megalmage* to fixed-line telecommunications service providers in the Hunan Province, the PRC.

Commence to promote *MegaLab* with appointed distributors to hospitals and laboratories in Shanghai, the PRC.

### Actual business progress for the period under review

Enhanced features based on customer's requirements were provided to the mobile bureau in Shenzhen over their existing *Megalmage* version.

In progress. Expected completion during early 2006.

Continued to promote the Group's enterprise solutions to government authorities, enterprises, hotel and gaming operators in Macao, and mobile operators and telecommunications operators in the PRC. During the Six-Month Period, the Group participated in three IT exhibitions held in Macao to market the Group's solutions and applications.

Discussion is in progress with potential distributors in provinces outside the Guangdong Province and Shanghai.

Marketing presentations of the upgraded *Megalmage* have been made to fixed-line telecommunications service providers in the Guangdong Province, with positive response received.

In progress. 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.



**Business objectives for the period under review as set out in the prospectus**

Continue to promote upgraded *MegaImage*, *MegaDMS* and *MegaOffice* to various departments under the Government of Macao and public utilities companies.

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

Continue to evaluate the need of setting up new representative offices in other provinces (subject to the business requirements of the Group) to handle customers' enquires and provide after-sales support services.

Apply for quality assurance certification for *MegaLab* from an independent software center in the PRC.

With the software development engineers of the Group and based on latest market trends and customers' requirements, commence the evaluation of new enterprise solutions to research and develop.

Finalize the documentation to acquire the targeted software company in the PRC.

**Actual business progress for the period under review**

Contracts awarded from the Civil Engineering Laboratory Bureau, and the Police and Judiciary Department of the Government of Macao.

Participated in the Hi-tech Expo in Shenzhen during October 2005, with positive feedback from potential customers.

The setup of technical support centres in Guangzhou and Shanghai is under review.

Development of *MegaLab* is still in progress.

An automatic queuing system, which is an enhancement to the one-stop e-government project, is to be developed for IACM of the Government of Macao.

Under review and to be in line with the Group's strategic directions in product development and market positioning.



## Applications and Comparison of Use of Proceeds

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 as stated in the prospectus with actual application.

### Use of proceeds as stated in the prospectus

Approximately HK\$0.3 million for product enhancement with new features and functionalities.

Approximately HK\$0.4 million for research & development of new products under the Group's own brand name.

Approximately HK\$0.9 million for business development, expansion of the Group's marketing team and participation in IT exhibitions.

Approximately HK\$1.2 million for expansion of geographical presence in the PRC.

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

Approximately HK\$5.0 million for acquisition of a software company to complement the future growth of the Group.

### Application of proceeds from the initial share offer on 19 January 2004

Approximately HK\$0.3 million for marketing research and in R&D of new products and upgrades.

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\$0.6 million for recruitment of new sales representatives to the marketing teams and participation in various IT exhibitions in Macao, Shenzhen and Guangzhou.

The Group is in the process of evaluating the setting up of technical support centres in Guangzhou and Shanghai.

The application of quality assurance certifications has been postponed until the completion of the development of products.

The Group is in the process of evaluating for acquisition of a software company which is in line with the Group's strategic directions in product development and market positioning.

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

At 31 December 2005, the interests and short positions of the Directors and the chief executives and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules, were as follows:

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

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

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



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

Name of Director	Capacity	Number of issued ordinary shares held by 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 31 December 2005.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of certain Directors and chief executives or their associates, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital or underlying shares of the Company who would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group, were as follows:

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

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

### Notes:

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



## INTERESTS IN COMPETING BUSINESS

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

## CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code of Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules throughout the Six-Month Period, except for the following deviations:

- (i) There is no division of roles of chairman and chief executive office that both offices are held by Mr. José Manuel dos Santos.
- (ii) Not all directors are subject to retirement by rotation at least once every three year.
- (iii) The Company has not yet disclosed the terms of reference of the remuneration committee and audit committee on the website of the Company.

### Code Provision A.2.1

The Company considers that the combination of the roles of chairman and chief executive officer can effectively formulate and implement the Company's strategies. The Company considers that under the supervision of its Board and its independent non-executive Directors, a balancing mechanism exists so that the interests of shareholders are adequately and fairly represented. The Company considered that there is no imminent need to change the arrangement.

### Code Provision A.4.2

The Board considered that to the best interest of the Group, the Chairman of the Company does not need to be subject to retirement by rotation in accordance with the Company's Bye-laws.

### Code Provision B.1.4 and C.3.4

Appropriate actions are being taken to update the website of the Company, whereat the written terms of reference of the audit committee and remuneration committee will be disclosed. These terms of reference are also available from the Company on request.

## SECURITIES TRANSACTIONS BY DIRECTORS

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

## AUDIT COMMITTEE

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

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

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

## SPONSOR'S INTEREST

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

On 28 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 1 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 30 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 31 December 2005.



## 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
Companhia de Telecomunicações de Macau S.A.R.L. ("CTM")	1	MOP8,100,000 (equivalent to HK\$7,864,078)	Trade receivable
Alfândega de Macau ("Custom")	2	MOP3,321,043 (equivalent to HK\$3,224,314)	Trade receivable

### Notes:

1. The balance of trade receivable from CTM, the largest telecommunications operator in Macao, arose as a result of the issue of sales invoices by a subsidiary of the Company to CTM, and such trade receivable represented approximately 27.6% of the unaudited consolidated total assets of the Group as at 31 December 2005. It is unsecured, interest free and has no fixed repayment terms. CTM holds a 51% interest in the issued share capital in CTM-Mega Technology Limited, an associate company that the Group holds a 49% interest in the issued share capital. CTM-Mega Technology Limited has not yet commenced business. CTM has paid MOP4,050,000 to the Company to settle 50% of the balance in January 2006.
2. The balance of trade receivable from Custom, the custom service bureau under the Government of Macao, arose as a result of the issue of sales invoices by a subsidiary of the Company to Custom, and such trade receivable represented approximately 11.3% of the unaudited consolidated total assets of the Group as at 31 December 2005. It is unsecured, interest free and has no fixed repayment terms. Custom 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). Custom has paid MOP3,321,043 to the Company to fully settle the balance in January 2006.

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

Hong Kong, 13 February 2006