



INTERIM REPORT

05



**MegalInfo Holdings Limited**  
**萬佳訊控股有限公司**

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast further profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

**The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

*The Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

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

**HIGHLIGHTS**

- Turnover for the Six-Month Period amounted to approximately HK\$7.8 million (2003: HK\$4.7 million), representing an increase of approximately 66% over corresponding period during 2003.
- Loss attributable to shareholders recorded at approximately HK\$5 million.
- Secured and completed various contracts for the Government of Macao and various local enterprises with orders on hand as at 31 December 2004 amounted HK\$13.8 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 ("Three-Month Period") and six months ended 31 December 2004 ("Six-Month Period") together with the comparative unaudited figures of the corresponding period in 2003 as follows:

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

For the three and six months ended 31 December 2004

	Note	Three months ended 31 December		Six months ended 31 December	
		2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Turnover	2	<b>2,847,378</b>	2,733,247	<b>7,757,077</b>	4,730,044
Cost of sales		<b>(1,853,670)</b>	(2,069,016)	<b>(5,660,830)</b>	(3,659,411)
Gross Profit		<b>993,708</b>	664,231	<b>2,096,247</b>	1,070,633
Other revenue	2	<b>13,315</b>	426	<b>15,019</b>	426
Selling and administrative expenses		<b>(4,512,605)</b>	(1,670,070)	<b>(7,091,471)</b>	(2,623,444)
Loss from operation	3	<b>(3,505,582)</b>	(1,005,413)	<b>(4,980,205)</b>	(1,552,385)
Finance costs		-	(35)	-	(35)
Loss attributable to shareholders		<b>(3,505,582)</b>	(1,005,448)	<b>(4,980,205)</b>	(1,552,420)
Basic loss per share	6	<b>0.655 cents</b>	0.242 cents	<b>0.931 cents</b>	0.374 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 31 December 2004

	Note	<b>As at 31 December 2004 (unaudited) HK\$</b>	As at 30 June 2004 (audited) HK\$
Non-current assets			
Intangible assets		<b>10,489,828</b>	11,302,728
Interest in an associate		<b>14,272</b>	–
Fixed assets		<b>1,338,587</b>	1,499,380
Current assets			
Inventories		<b>602,498</b>	3,993,514
Trade receivables	7	<b>3,499,616</b>	4,100,080
Other receivables, deposits and prepayment		<b>5,382,327</b>	1,422,501
Bank balances and cash		<b>8,958,423</b>	16,015,256
		<b>18,442,864</b>	25,531,351
Current liabilities			
Trade payables	8	<b>577,853</b>	1,088,687
Other payables, accruals and deposits received		<b>4,084,153</b>	4,473,801
Deferred revenue		<b>224,050</b>	224,050
Bank overdrafts		–	2,143,839
		<b>4,886,056</b>	7,930,377
Net current assets		<b>13,556,808</b>	17,600,974
Total assets less current liabilities		<b>25,399,495</b>	30,403,082
Financed by:			
Share capital	9	<b>5,350,000</b>	5,350,000
Reserves	9	<b>20,049,495</b>	25,053,082
Shareholders' funds		<b>25,399,495</b>	30,403,082

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the Six-Month Period

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2004</b>	2003
	<b>HK\$</b>	HK\$
Total equity at the beginning of the period	<b>30,403,082</b>	5,506,380
Loss for the period	<b>(4,980,205)</b>	(1,552,420)
Issue of shares	-	23,620
Merger reserve arising on group re-organization	-	5,608,399
Share issuance costs	-	(1,018,488)
Exchange differences arising on translation of accounts of foreign subsidiaries	<b>(23,382)</b>	-
Total equity at the end of the period	<b><u>25,399,495</u></b>	<u>8,567,491</u>

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

	<b>Six months ended 31 December</b>	
	<b>2004 HK\$</b>	2003 HK\$
Net cash (outflow)/inflow from operating activities	<b>(4,876,225)</b>	911,853
Net cash outflow from investing activities	<b>(36,769)</b>	(1,012,734)
Net cash inflow from financing activities	<b>-</b>	223,620
	<hr/>	<hr/>
(Decrease)/Increase in cash and cash equivalents	<b>(4,912,994)</b>	122,739
Cash and cash equivalents at the beginning of the period	<b>13,871,417</b>	-
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	<b>8,958,423</b>	122,739
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Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>8,958,423</b>	122,739
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Notes:

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

The unaudited condensed consolidated accounts have been prepared in accordance with the Statement of Standard Accounting Practice 25 (Interim Financial Reporting) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

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

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

### (2) Turnover

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

	Three months ended 31 December		Six months ended 31 December	
	2004 (unaudited) HK\$	2003 (unaudited) HK\$	2004 (unaudited) HK\$	2003 (unaudited) HK\$
Turnover				
Provision of digital image processing management solution	<b>2,847,378</b>	2,733,247	<b>7,757,077</b>	4,730,044
Other revenue				
Interest income	<b>13,315</b>	426	<b>15,019</b>	426
Total Revenue	<b>2,860,693</b>	2,733,673	<b>7,772,096</b>	4,730,470

## Segment information

## (i) Primary report format – geographical segment

The Group is principally engaged in the provision of enterprise solutions with an initial focus on self-developed digital image processing management applications in mainland China and Macao. There are no sales between the geographical segments.

	<b>Six months ended 31 December</b>	
	<b>2004 (unaudited) HK\$</b>	2003 (unaudited) HK\$
Turnover		
Mainland China	<b>2,580,623</b>	–
Macao	<b>5,176,454</b>	4,730,044
	<b><u>7,757,077</u></b>	<u>4,730,044</u>
Segment results		
Mainland China	<b>374,350</b>	(1,079,128)
Macao	<b>(3,608,020)</b>	(444,233)
	<b>(3,233,670)</b>	(1,523,361)
Unallocated costs	<b>(1,746,535)</b>	(29,024)
Operating loss	<b>(4,980,205)</b>	(1,552,385)
Segment assets		
Mainland China	<b>5,128,471</b>	171,493
Macao	<b>21,628,488</b>	15,909,391
Unallocated assets	<b>3,528,592</b>	26,845
Total assets	<b>30,285,551</b>	16,107,729
Segment liabilities		
Mainland China	<b>320,178</b>	766,106
Macao	<b>4,562,078</b>	1,689,916
Unallocated liabilities	<b>3,800</b>	5,084,216
Total liabilities	<b>4,886,056</b>	7,540,238
Capital expenditure		
Macao	<b>22,497</b>	–
Unallocated	–	30,183
Amortization		
Mainland China	<b>275,000</b>	–
Unallocated	<b>131,450</b>	–
Depreciation		
Mainland China	<b>10,580</b>	3,757
Macao	<b>218,880</b>	25,449
	<b>229,460</b>	29,206

(ii) *Secondary report format – business segment*

No business segment analysis is presented as the Group has been operating in a single business segment, which is the provision of enterprise solutions with an initial focus on self-developed digital image processing management applications in mainland China and Macao.

**(3) Loss from operations**

Loss from operations is stated after charging the following:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>31 December</b>		<b>31 December</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>(unaudited)</b>	(unaudited)	<b>(unaudited)</b>	(unaudited)
	<b>HK\$</b>	HK\$	<b>HK\$</b>	HK\$
Cost of inventories	<b>1,853,670</b>	2,069,016	<b>5,660,830</b>	3,659,411
Depreciation of fixed assets	<b>115,946</b>	21,516	<b>229,460</b>	29,024
Amortization of intangible assets				
– goodwill	<b>275,000</b>	–	<b>550,000</b>	–
– software licenses	<b>131,450</b>	–	<b>262,899</b>	–
Staff cost (including directors' remuneration)	<b>2,522,595</b>	963,638	<b>3,729,835</b>	1,577,777

**(4) Taxation**

No provision for profits tax has been made in the accounts as the Group does not have any estimated assessable profits in the jurisdictions in which the Group operates for the both periods ended 31 December 2004 and 2003.

**(5) Dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2004 (2003: Nil).

**(6) Loss per share**

The calculation of basic loss per share for the Three-Month Period and the Six-Month Period is based on the unaudited net loss of approximately HK\$3,505,582 and HK\$4,980,205 respectively (three months and six months ended 31 December 2003: net loss of HK\$1,005,448 and HK\$1,552,420 respectively) and the weighted average number of 535,000,000 ordinary shares in issue (2003: 414,625,000) during the periods.

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

**(7) Trade receivables**

At 31 December 2004, the ageing analysis of the trade receivables is as follows:

	<b>31 December 2004 (unaudited) HK\$</b>	30 June 2004 (audited) HK\$
0 – 30 days	<b>642,869</b>	18,948
31 – 60 days	<b>325,631</b>	2,260,135
61 – 90 days	-	-
91 – 120 days	-	-
121 – 365 days	<b>2,364,766</b>	-
> 365 days	<b>166,350</b>	1,820,997
	<b><u>3,499,616</u></b>	<b><u>4,100,080</u></b>

**(8) Trade payables**

At 31 December 2004, the ageing analysis of the trade payables is as follows:

	<b>31 December 2004 (unaudited) HK\$</b>	30 June 2004 (audited) HK\$
0 – 30 days	<b>57,329</b>	1,088,687
31 – 60 days	<b>501,080</b>	-
61 – 90 days	<b>1,351</b>	-
91 – 120 days	-	-
121 – 365 days	<b>18,093</b>	-
> 365 days	-	-
	<b><u>577,853</u></b>	<b><u>1,088,687</u></b>

**(9) Share capital and reserves**

	Share capital HK\$	Share premium HK\$	Exchange reserve HK\$	Contributed surplus HK\$	Accumulated losses HK\$	Total HK\$
At 1 July 2004 (audited)	5,350,000	20,576,560	(42,978)	11,108,399	(6,588,899)	30,403,082
Exchange differences in transaction of accounts of overseas subsidiaries	-	-	(23,382)	-	-	(23,382)
Loss attributable to shareholders	-	-	-	-	(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>
At 1 July 2003 (unaudited)	106,380	5,400,000	-	-	-	5,506,380
Issue of shares	23,620	-	-	-	-	23,620
Loss attributable to shareholders	-	-	-	-	(1,552,420)	(1,552,420)
Share issuance costs	-	-	-	-	(1,018,488)	(1,018,488)
Merger reserve arising on group re-organization	-	-	-	5,608,399	-	5,608,399
At 31 December 2003	<u>130,000</u>	<u>5,400,000</u>	<u>-</u>	<u>5,608,399</u>	<u>(2,570,908)</u>	<u>8,567,491</u>

**(10) Operating lease commitments**

At the balance sheet date, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

	<b>31 December 2004 (unaudited) HK\$</b>	30 June 2004 (audited) HK\$
Within one year	-	268,719
In the second to fifth year inclusive	-	-
	<u>-</u>	<u>268,719</u>

**(11) 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>2004</b>	2004
	<b>HK\$</b>	<b>HK\$</b>
Rental expense payable to Vodatel Services and Consultant Limited for lease of office premises	-	65,429
	<u>          </u>	<u>          </u>

**(12) Ultimate holding company**

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

**MANAGEMENT DISCUSSION AND ANALYSIS****Business Review – Macao**

As previously anticipated, Macao continued to provide promising business opportunities for the Group during the Three-Month Period. Focusing on the development of innovative and value-added products and services and capitalizing on our roots in Macao, we have continued to build our reputation and position ourselves as the preferred provider of enterprise solutions for the Government of Macao and enterprises in the territory.

Marketing and promotional activities of the Group's products and services undertaken over the past 12 months, in particular with a primary target to penetrate the Government of Macao, yielded us rewards. During the Three-Month Period, we have been awarded a contract from the Alfândega de Macau (Macao Customs Service) and the Direcção dos Serviços das Forças de Segurança de Macau (Public Security Force) under the Government of Macao to supply and install an Automatic Vehicle Clearance System and an Automatic Passenger Clearance System respectively, aggregate of these contracts amounted to approximately HK\$11 million. Both systems, which are highly efficient, reliable and automated systems that operate 24 hours a day, 7 days a week, will span and provide effective patrol at borders and major ports in Macao. These systems are designed to strategically assist the enhancement of efficiency of both inbound and outbound custom clearance of vehicles and passengers at the various borders and ports in Macao, especially during peak hours where there is a high flow of vehicles and passengers. These systems will also allow the capture of data related to the flow of vehicles and passengers, offering vital statistics to the Government of Macao in overall systematic management and future town planning.

During the Three-Month Period, we have also successfully secured different contracts from various bureaus under the Government of Macao and quasi-governmental organizations, including contracts for the installation of an IP-based PABX system and surveillance system from the organizers of the Macao East Asian Games, contracts from the Direcção dos Serviços para os Assuntos Laborais (Labour Affairs Bureau) to supply and install our *MegaImage* solution at their premise, contract from Instituto para os Assuntos Cívicos e Municipais (Civic & Municipal Affairs Bureau) ("IACM") for the upgraded and enhanced version of our *MegaImage* solution, and a contract from the Polícia Judiciária (Judiciary Police) for the maintenance of the hardware associated with the *MegaImage* application. Total value of these contracts amounted to approximately HK\$3 million.

The Government of Macao is and will be the major targeted customer of the Group. While we will continue to explore opportunities with various bureaus under the Government of Macao, we will also continue to actively seek for business prospects from quasi-governmental organizations, e.g. the Macao 2005 4th East Asians Games Organising Committee who will be hosting the upcoming 2005 Macao East Asian Games in October 2005.

Our experience and successes with the installation and completion of various projects for the Government of Macao have been critical in building up the Group's reputation in the market as every successful project represents strong reference site that proves the capabilities of the Group in handling large-scale IT solution projects. During the Three-Month Period, we are proud that we have completed the installation and the deployment of the one-stop e-government public service solution for IACM and have entered into the final testing stage. The one-stop e-government project will nevertheless, become one of the most important landmark projects for the Group. We believe that our proven track record and experience in the success delivery of major projects for the Government of Macao will strengthen the foundation of the Group and position MegaInfo as one of the preferred providers of enterprise solutions in the market.

Besides targeting projects from the Government of Macao, we have also been actively pursuing business opportunities in different industries in Macao. To promote the series of *Mega* branded products and services, in October 2004, the Group participated in the Macao IT Week. This exhibition, which is one of the major annual exhibitions held in Macao attracting enterprises from both Macao and mainland China, provided us with the opportunity to introduce the Group's spectrum of products and services to potential customers. To allow us to gain access to a broader range of customers, partnering with strong market players has also been our core strategy. During the Three-Month Period, we have concluded a joint venture – CTM-Mega Technology Limited – with Companhia de

Telecomunicações de Macau S.A.R.L. ("CTM"), the largest telecommunications operator in Macao. We believe that joining forces with CTM will assist the Group to strengthen the marketing and distribution of *Mega* branded products and allow us approach an expanded customer base.

### **Business Review – Mainland China**

During the period under review, we have continued to actively expand our geographical coverage and customer base. In addition to establishing an office in Guangzhou, Guangdong Province, to serve as the marketing centre overseeing sales and marketing activities in southern China and providing sales support to our local distributors and resellers, we have also tapped the mainland China market by forming business collaborations with reputable local partners. In December 2004, we entered into an Industry Distributor Agreement with Red Flag Linux in mainland China, which will allow us to gain access and cross-sell our products and services to the established networks of Red Flag Linux in mainland China. In the same month, we have also entered into a reseller agreement with Beijing-based Talent First Technology Limited for the distribution of *MegaECM*.

To capture more business opportunities in the mainland China market, we have put in place an aggressive sales & marketing strategy. In October 2004, we participated in a large technical exposition, the China Hi-Tech Fair in Shenzhen, Guangdong Province and received positive responses. We will continue to participate in similar events, utilizing them as promotional tools to market and promote the *Mega* branded products and services to the mainland China market, develop potential channel resellers and attract new customers.

## **FINANCIAL POSITION AND OPERATING PERFORMANCE REVIEW**

### **Turnover and Profitability**

During the Six-Month Period, the Group reported consolidated turnover of approximately HK\$7.8 million, representing an increase of 64% over the corresponding period for the six months ended 31 December 2003 of approximately HK\$4.7 million. Improved consolidated turnover for the Group was attributed primarily to projects secured from the Government of Macao, including those from IACM and the Polícia Judiciária. Nevertheless, with increased number of headcounts to support both the research development and marketing activities of the Group and for the delivery of projects secured from the Government of Macao, coupled with amortization of the perpetual license, consolidated net loss of the Group widened to approximately HK\$5 million for the Six-Month Period.

During the Six-Month Period, although much resources have been invested in the development of a series of *Mega* branded products and services and in marketing and promotional activities, we have successfully secured several contracts from the Government of Macao and various local enterprises, orders on hand as at 31 December 2004 amounted to approximately HK\$13.8 million. Improving our revenue stream, margins and profitability will remain the key objectives of the Group.

### **Capital Resources and Liquidity**

Net cash and bank balances as at 31 December 2004 were HK\$10 million. The total assets of the Group as at 31 December 2004 were HK\$30.3 million. There was no charge on the Group's assets as at 31 December 2004.

The total liabilities of the Group were HK\$4.9 million, translating to a gearing ratio (total liabilities over shareholders' fund) of approximately 19.2%. During the Six-Month Period, the Group maintained a debt-free capital structure.

### **Foreign Exchange Exposure**

As at 31 December 2004, the Group held cash and bank deposits denominated in Hong Kong Dollars, Renminbi, and Macao Patacas. Since all of its revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted substantially in Renminbi, which is not freely convertible into foreign currencies, and 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.

### **Employees' Information**

As at 31 December 2004, the Group had 60 employees (30 June 2004: 49) in Hong Kong, Macao and mainland China. Total staff costs (excluding directors' emoluments) for the Six-Month Period amounted to approximately HK\$2.7 million.

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

## COMPARISON OF BUSINESS OBJECTIVES

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

### Actual business progress for the period under review

Complete the development of the multi-media document and system mobile accessibility module of *MegaImage*.

Completed.

Complete the integration of the image counting module with *MegaMax*.

In view of market demand, we have put a halt to the integration of the image counting module with *MegaMax*.

Commence the R&D of *MegaOffice*, a system that integrates *MegaDMS*, workflow system and *MegaImage* in to a complete office automation imaging solution.

Completed the document flow module and commenced the R&D of the workflow module of the *MegaOffice* application.

Complete the integration of the imaging processing management module with *Mega-ERP/ECM* application upgrades.

Completed with a reseller agreement with Beijing-based Talent First Technology Limited entered into during December 2004 for the distribution of integrated version of the *MegaECM* application.

Continue the promotion and marketing activities in previous period.

Strong marketing and promotional activities have been undertaken to primary target the Macao market, in particular the Government of Macao, so as to capitalize business opportunities brought from the increased capital spending of the Government of Macao and the opening up of the gaming industry.

Launch and promote upgraded *MegaImage* to mobile service providers in Nanjing and the Hunan Province, the PRC.

On hold as marketing activities have been geared to secure business opportunities from the mobile service providers in the Guangdong Province.

Launch and promote *MegaDMS* to various department under the Government of Macau and public utilities companies.

Commenced the promotion of *MegaDMS* application to the electricity bureau and different government departments in Macao.

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

Form a strategic alliance with either a supplier or a distributor in the medical sector to research on the documents imaging requirements for hospitals and laboratories in the Guangdong Province, the PRC.

Strengthen the sales and marketing team by recruiting 1 sales representative.

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

Complete the setting up of the representative office in Shanghai, the PRC.

Apply for quality assurance certification for *Megalmage*, *MegaMax* and *MegaDMS* from an independent software center in the PRC.

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

In view of robust business environment in Macao, we have selected to form strategic alliance with reputable partners in Macao to tap the market and have concluded a joint venture with the largest telecommunications operator in Macao for the promotion of the Group's series of *Mega* branded products.

Recruited 2 sales representatives to strengthen the sales and marketing teams in Zhuhai and Beijing.

In October 2004, the Group participated in a large technical exposition, the Shenzhen High Technology Trade Fair in Shenzhen, Guangdong Province.

With an established customer base in the Guangdong Province, a subsidiary in Guangzhou has been first selected to act as the marketing centre to oversee sales and marketing activities in southern China and to provide sales support to the Group's local distributors and resellers.

Submitted the *Megalmage* application to CEPREI Certificate Body, an independent software centre in the Guangdong Province for testing and independent evaluation of the application's features and functionalities.

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

Explore collaboration arrangements with R&D institutes of various universities or software companies in the PRC to engage in the R&D of new enterprise solutions that will strengthen the Group's product offerings.

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

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

Under review and to be in line with the Group's strategies in product development.

Under review and to be in line with the Group's strategies in market positioning.

## Applications and Comparison of Use of Proceeds

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

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

### Use of Proceeds as stated in the prospectus

Approximately HK\$0.1 million for product enhancement with new features and functionalities.

Approximately HK\$0.4 million for R&D 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.

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

Approximately HK\$0.1 million for product enhancement of the Group's existing solutions.

Approximately HK\$0.4 million for marketing research and recruitment of additional software engineers to engage in R&D of new product.

Approximately HK\$0.6 million for participation in various IT exhibitions organized in Macao and mainland China to promote the Group's products.

Approximately HK\$0.4 million for the establishment of the subsidiary in Guangzhou and a centre in Beijing.

Under testing and the cost at this stage is insignificant. The major cost will be incurred in the next quarter.

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

As at 31 December 2004, the interests and short positions of the Directors and chief executive in the ordinary shares of the Company ("Shares"), underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which are required (a) to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rule 5.46 to 5.66 of the GEM Listing Rules, to be notified to the Company and the Exchange, were as follows:-

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

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

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

**(ii) aggregate long and short positions in shares of VNHL Shares and (in respect of equity derivatives) underlying VNHL Shares**

Name of Director	Long position/ short position	Nature of interest	No. of VNHL Shares	No. of underlying VNHL Shares (in respect of share option and convertible bond) held	Approximate % of the issued share capital of VNHL
Mr. José Manuel dos Santos	Long position	Corporate interest (note 1)	293,388,000	–	47.80%
	Long position	Personal interest (note 2)	–	600,000	0.10%
	Short position	Corporate interest (note 1)	–	14,612,000	2.38%
Mr. Kuan Kin Man	Long position	Personal interest (note 3)	12,262,500	900,000	2.14%
Mr. Yim Hong	Long position	Personal interest (note 4)	7,357,500	900,000	1.35%
Mr. Mok Chi Va	Long position	Family/Personal interest (note 5)	20,000	230,000	0.04%

*Notes:*

- (1) These VNHL Shares were held in the name of ERL and the entire issued share capital in ERL was in turn held by a company wholly owned by Mr. José Manuel dos Santos, as trustee of a discretionary family trust. VNHL was under an obligation to issue a total of 14,612,000 VNHL Shares in respect of the outstanding share options and the convertible bond. Mr. José Manuel dos Santos was deemed to be interested in such short position by virtue of his interest in ERL.
- (2) Mr. José Manuel dos Santos was the beneficial owner of such interest in VNHL Shares.
- (3) Mr. Kuan Kin Man was the beneficial owner of such interest in VNHL Shares.
- (4) Mr. Yim Hong was the beneficial owner of such interest in VNHL Shares.
- (5) The 20,000 VNHL Shares was held by the spouse of Mr. Mok Chi Va and Mr. Mok Chi Va was deemed to be interested in such VNHL Shares. Mr. Mok Chi Va was the beneficial owner of the remaining interest in VNHL Shares.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

So far as was known to any Directors or chief executive of the Company as at 31 December 2004, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5 per cent, or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

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

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

#### Notes:

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

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

Save as disclosed in the preceding paragraphs headed "Directors and chief executives' interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation" and "Substantial shareholders' interests and short positions in the Shares, underlying Shares of the Company", so far as is known to the Directors, there is no other person or company who has an interest or short position in the shares, underlying shares or debentures of the Company that is discloseable under the SFO as at 31 December 2004.

## **SPONSOR'S INTEREST**

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

None of the Sponsor and its directors, employees or associates had any interests in the securities of the Company or any member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2004.

## **COMPETING INTERESTS**

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

## **AUDIT COMMITTEE**

The Company has established an audit committee ("Committee") with written term of reference in compliance with GEM Listing Rules. The Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises three independent non-executive Directors, namely Mr. Chui Sai Cheong, Mr. Tsui Wai Kwan and Mr. Tam Pak Yip.

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

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

## **BOARD PRACTICES AND PROCEDURES**

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

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

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

The Hong Kong Special Administrative Region of  
the People's Republic of China, 4 February 2005

### *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