

( 慧 峯 集 團 有 限 公 司 )\*



( Incorporated in the Cayman Islands with Limited Liability )

3rd Quarterly Report 2002

\* For identification purposes only



## **Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock 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 future 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 Main Board 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 Stock 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 Stock 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 (the “Directors”) of Vertex Communications & Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The 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.*



## **3RD QUARTERLY REPORT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2002**

### **HIGHLIGHTS FOR THE NINE-MONTHS ENDED 30TH SEPTEMBER 2002**

- The Shares of the Company were successfully listed on GEM on 17th October 2002.
- For the nine months ended 30th September, 2002, the Group's turnover increased by approximately 84%, as compared to the corresponding period last year to approximately HK\$11.7 million.
- The loss attributable to shareholders recorded approximately HK\$10.257 million.
- Loss per share for the nine months ended 30th September 2002 is HK\$2.779 cents.
- The Board of Directors (the "Board") of Vertex Communications & Technology Group Ltd does not recommend the payment of an interim dividend for the nine months ended 30th September 2002.



## FINANCIAL RESULTS

The Board of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 30th September, 2002, together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

|   | Notes | For the nine months<br>ended 30th September |                                 | For the three months<br>ended 30th September |                                 |
|---|-------|---|---------------------------------|--|---------------------------------|
|   |       | 2002<br>HK\$'000<br>(Unaudited)             | 2001<br>HK\$'000<br>(Unaudited) | 2002<br>HK\$'000<br>(Unaudited)              | 2001<br>HK\$'000<br>(Unaudited) |
| Turnover  | (2)   | 11,677                                      | 6,340                           | 3,078  | 835                             |
| Other revenue   |       | 75  | 13                              | 21   | 3                               |
| Staff cost  |       | (8,915)                                     | (2,314)                         | (2,984)                                      | (611)                           |
| Subcontracting costs  |       | (6,522)                                     | (1,452)                         | (2,112)                                      | (234)                           |
| Depreciation  |       | (1,233)                                     | (118)                           | (421)  | (42)                            |
| Royalty and Production costs  |       | (1,702)                                     | (523)                           | (276)  | (84)                            |
| Other operating expenses  |       | (4,306)                                     | (1,224)                         | (1,499)                                      | (659)                           |
| (Loss) profit from operations   |       | (10,926)                                    | 722                             | (4,193)                                      | (792)                           |
| Taxation credit   | (3)   | 81  | -                               | 81   | -                               |
| (Loss) profit after taxation but<br>before minority interests                 |       | (10,845)                                    | 722                             | (4,112)                                      | (792)                           |
| Minority interest   |       | 588   | -                               | 11   | -                               |
| Net (loss) profit from ordinary<br>activities attributable to<br>shareholders |       | (10,257)                                    | 722                             | (4,101)                                      | (792)                           |
| (Loss) profit per share – Basic   | (4)   | HK\$(2.779) cents                           | HK\$0.196 cents                 | HK\$(1.11) cents                             | HK\$(0.215)cents                |



Notes:

## **1. GROUP REORGANIZATION AND BASIS OF PRESENTATION**

The Company was incorporated in the Cayman Islands on 16th November 2001 as an exempted company under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were successfully listed on GEM on 17th October 2002.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group on 18th December 2001 by principally issuing 4 shares of HK\$0.1 each of the Company in exchange for the entire issued share capital of Network Engineering Limited, Net2Voice (Hong Kong) Limited, Pacific Digitals (HK) Limited and Unifine Ltd. Details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix IV of the Company's prospectus dated 9th October 2002.

The unaudited consolidated income statements for the three months ended 30th September 2001 and the nine months ended 30th September 2001 have been prepared as if the current group structure had been in existence during these periods, or since their respective dates of incorporation or effective date of acquisition, where this is a shorter period.

The unaudited consolidated income statements for the three months ended 30th September 2002 and the nine months ended 30th September 2002 incorporated the results of the Company and its subsidiaries made up to those dates. The results of subsidiaries acquired or disposed of during the period are included in the unaudited consolidated income statements from the effective date of acquisition or up to effective date of disposal, as appropriate.

The financial information has been prepared in accordance with Statements of Standard Accounting issued by the Hong Kong Society of Accountants. The financial information also complies with the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules").

## **2. TURNOVER AND REVENUE**

The Company is an investment holding company. The Group is engaged in communications and technology business, specializing in the provision of communications infrastructure services, application and development of content delivery technology and content production, procurement and delivery.

Turnover represents the value of goods and services recognized when services are rendered.

## **3. TAXATION**

Hong Kong Profits Tax has not been provided for the three months and nine months ended 30th September 2002 (three months and nine months ended 30th September 2001: Nil) as the Group did not generate any assessable profits in Hong Kong during these periods.



Pursuant to the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises, the Company's subsidiary in the PRC is exempted from income tax for its first two profitable years of operations and is entitled to a 50% relief on the income tax of the PRC for the following three years. No provision for the PRC income tax has been provided as the Company's subsidiary in the PRC has no assessable profit in the PRC for the three months and nine months ended 30th September 2002 (three months and nine months ended 30th September 2001: Nil).

The Company is exempted from taxation in the Cayman Islands until 2019.

No provision for deferred tax has been provided for the Group because there were no significant timing differences at the balance sheet date (2001: Nil).

#### 4. LOSS PER SHARE

The calculation of basic loss per share for the three months and nine months ended 30th September 2002 is based on the unaudited consolidated loss from ordinary activities attributable to shareholders of approximately HK\$4,101,000 and HK\$10,257,000 (2001: loss of HK\$792,000 and profit of HK\$722,000 respectively) and on the weighted average number of 369,146,232 Shares (2001: 369,146,232 Shares) deemed to be in issue throughout the periods. The weighted average number of shares for the three months and nine months ended 30th September 2002 and 2001 are determined on the assumption that the Reorganization as described in Note 1 had been completed on 1st January 2001.

No diluted loss per share was presented as there were no dilutive potential shares in existence during the three months and nine months ended 30th September 2002 (three months and nine months ended 30th September 2001: Nil).

#### 5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September 2002 (nine months ended 30th September 2001: Nil).

#### 6. STATEMENT OF MOVEMENT TO AND FROM RESERVE

The movements in the consolidated reserves of the Group are as follows:

|                                       | For the three months ended 30th September |                                      |                            |                                       |                                      |                            |
|---------------------------------------|---|--------------------------------------|----------------------------|---------------------------------------|--------------------------------------|----------------------------|
|                                       | 2002                                      |                                      |                            | 2001                                  |                                      |                            |
|                                       | Accumulated losses (unaudited) HK\$'000   | Special reserve (unaudited) HK\$'000 | Total (unaudited) HK\$'000 | Retained profits (unaudited) HK\$'000 | Special reserve (unaudited) HK\$'000 | Total (unaudited) HK\$'000 |
| At 1st July                           | (4,479)                                   | 1,000                                | (3,479)                    | 2,752                                 | 1,000                                | 3,752                      |
| Net loss attributable to shareholders | (4,101)                                   | 0                                    | (4,101)                    | (792)                                 | 0                                    | (792)                      |
| At 30th September                     | <u>(8,580)</u>                            | <u>1,000</u>                         | <u>(7,580)</u>             | <u>1,960</u>                          | <u>1,000</u>                         | <u>2,960</u>               |



|   | For the nine months ended 30th September                               |   |                                  |  |   |                                  |
|---|--|---|----------------------------------|--|---|----------------------------------|
|   | 2002   |   |                                  | 2001   |   |                                  |
|   | Retained profits<br>(accumulated<br>losses)<br>(unaudited)<br>HK\$'000 | Special<br>reserve<br>(unaudited)<br>HK\$'000 | Total<br>(unaudited)<br>HK\$'000 | Retained<br>profits<br>(unaudited)<br>HK\$'000 | Special<br>reserve<br>(unaudited)<br>HK\$'000 | Total<br>(unaudited)<br>HK\$'000 |
|   |  |   |                                  |  |   |                                  |
| At 1st January                                    | 1,677  | 1,000   | 2,677                            | 1,238  | 1,000   | 2,238                            |
| Net (loss) profit attributable<br>to shareholders | (10,257)   | 0   | (10,257)                         | 722  | 0   | 722                              |
| At 30th September                                 | <u>(8,580)</u>   | <u>1,000</u>                                  | <u>(7,580)</u>                   | <u>1,960</u>                                   | <u>1,000</u>                                  | <u>2,960</u>                     |

The special reserve of the Group represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisitions at the time of the reorganization.

Pursuant to PRC law, a wholly foreign owned enterprise, Shanghai Vertex Communications & Technology Limited, shall make reservation on reserve fund and bonus and welfare funds. The proportion of reserve fund to be withdrawn shall not be lower than 10% of the total amount of profits after payment of tax. The withdrawal of reserve fund may be stopped when the total cumulative reserve has reached 50% of the registered capital. The proportion of bonus and welfare funds for workers and staff members to be withdrawn shall be determined by the wholly foreign owned enterprise. Under PRC law, the reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholdings, and the bonus and welfare funds are utilised for the capital expenditure on employees' welfare facilities. No appropriation was made to the reserve fund and bonus and welfare funds as the Company's subsidiary in the PRC incurred loss during the periods.

## HUMAN RESOURCES

As at the date of this report, the Group had approximately 40 full-time employee. Remuneration of the Group's employees includes basic salaries, discretionary bonuses, comprehensive medical coverage, insurance plan and contribution pension schemes.

## BUSINESS OBJECTIVE REVIEW

As this quarterly report covers activities up to 30th September 2002 only, all business objectives stated in the paragraph headed "Business objectives and proposed strategy" under the section headed "Statement of business objectives and strategies" of the Prospectus are still in progress and no further update is applicable.



## **BUSINESS REVIEW**

For the nine months ended 30th September 2002, the Group recorded higher revenue of approximately HK\$11.7 million, representing a surge of approximately 84% over the corresponding period in 2001. The increase in revenue was mainly attributable to the increase in broadband communication infrastructure services undertaken by the Group for local broadband network carriers and additional revenue from publication of the first and second issues of the Chinese language Newsweek Special Edition.

Staff cost for the nine months under review increased to approximately HK\$8.9 million from approximately HK\$2.3 million for the same period in the previous year. The increase in staff cost was mainly attributable to recruitment of new staff for publication of Chinese language Newsweek Special Edition, setting up of a corporate office to provide management services to the Group and additional staff from the newly acquired company, Shanghai Vertex Communications & Technology Limited, in February 2002.

The subcontracting costs for the nine months ended 30th September 2002 amounted to approximately HK\$6.5 million, representing approximately 56% of the turnover. For the same period in previous year, the subcontracting cost was approximately HK\$1.5 million or 23% of the turnover. The increase in subcontracting cost and the percentage of subcontracting cost against turnover was in line with the increase in broadband communication infrastructure services during the period.

The increase in depreciation charge during the period as compared to the amount charged for the same period in previous year was due to depreciation of assets acquired from the subsidiaries of SAR1 Group on 31st December 2001 at the aggregate net book value of approximately HK\$6.3 million.

The royalty and production costs represent the cost including mainly royalty paid to Newsweek Inc., translation, printing and distribution costs incurred for the publication of the first two issues of Chinese language Newsweek Special Edition during the period. For the nine months ended 30th September 2002, the royalty and production cost amounted to HK\$1.7 million, representing 14.5% of the turnover of the Group.

The other operating expenses for the nine months ended 30th September 2002 amounted to approximately HK\$4.3 million, representing 37% of the turnover of the Group. The increase in other operating expenses was mainly attributable to the termination of the management fee arrangement with SAR1 Group since 1 January 2002, the acquisition of Optimum Cyber Group and the publication of Chinese language Newsweek Special Editions.





## PROSPECT

The prospect of the Company rely on the capabilities of the Company to capitalize on the substantial business opportunity created by the media and communication technologies in the Greater China Region. It is particularly true when China entered into WTO last year.

To capture the substantial business opportunity in the region, the Company shall continue to develop and strengthen its cross-media business and its expertise in communication technologies.

## SHARE OPTION SCHEME

Pursuant to a written resolution of the sole shareholder dated 22nd July 2002, the Company conditionally adopted the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, the principal terms of which are set out in the section headed "Pre-IPO Share Option Scheme" and "Post-IPO Share Option Scheme" in Appendix IV to the Prospectus.

### Pre-IPO Share Option Scheme

As at the Listing Date, options to subscribe for an aggregate of 27,125,000 Shares of the Company granted pursuant to the Scheme were outstanding. A portion of each grantee's right to exercise the option that has been conditionally granted under the Pre-IPO Share Option Scheme shall be deemed to have vested on 17th June, 2002 (such portion is fixed on the basis of the grantee's employment period and/or contribution to the Group and as set out in the table below) and the rest of the right shall continue to vest over a period of not more than 4 years from 17th June, 2002 on a monthly basis each time for 1/48th of the total number of Shares comprised in the option and, subject to that no option granted under the Pre-IPO Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant option. No further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so end on 9th October 2002 (the date of the Prospectus). Details are as follows:

|                       | <b>Date of grant</b> | <b>Exercisable price<br/>HK\$</b> | <b>Number of<br/>share options*</b> |
|-----------------------|----------------------|-----------------------------------|-------------------------------------|
| 3 Executive Directors | 24th July 2002       | 0.12                              | 17,668,000                          |
| 2 Executive Directors | 24th July 2002       | 0.21                              | 3,434,000                           |
| 2 Advisers            | 24th July 2002       | 0.45                              | 1,334,000                           |
| 1 Advisers            | 24th July 2002       | 0.12                              | 434,000                             |
| 7 Employees           | 24th July 2002       | 0.12                              | 3,292,000                           |
| 4 Employees           | 24th July 2002       | 0.21                              | 963,000                             |
| Total                 |                      |                                   | <u>27,125,000</u>                   |



- \* A portion of each grantee's right to exercise the option shall be deemed to have vested on 17th June, 2002. No option granted under the Pre-IPO Share Option Scheme can be exercised before 17th October, 2003.

Save as disclosed above, as at the Listing Date, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

The Board considers that the calculation of value of options granted is not possible as the date of grant of option was before the Listing Date.

No options was cancelled or lapsed since the date of grant.

### Post-IPO Share Option Scheme

Up to the Listing Date, no option has been granted by the Company pursuant to the Post-IPO Share Option Scheme.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY

As the shares of the Company were listed on GEM of the Stock Exchange on 17th October 2002, the information on directors' and chief executive's interests in shares were shown as if the shares were listed on 30th September 2002:

### (1) Shares

| Director                 | Notes | Nature of Interest   | Number of Shares of HK\$0.01 each in the Company held | % of shareholding in the Company |
|--------------------------|-------|----------------------|---|----------------------------------|
| Dr. Poon Kwok Lim Steven | (1)   | Corporate and family | 282,701,528   | 57.44                            |
| Mr Poon Shu Yan Joseph   | (2)   | Corporate and family | 16,788,667  | 3.41                             |
| Dr. Lee Peng Fei Allen   | (3)   | Corporate and family | 11,100,000  | 2.26                             |

Notes:

- (1) Dr. Poon Kwok Lim Steven and his spouse, Mrs. Poon Wong Wai Ping, are entitled to exercise or control the exercise of one-third or more of the voting rights of Amazing Nova Corporation. Dr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of the SDI Ordinance, to be interested in the same 167,886,666 Shares held by Amazing Nova Corporation. Matrix Worldwide Corporation is wholly and beneficially owned by Dr. Poon Kwok Lim Steven. Dr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of the SDI Ordinance, to be interested in the same 61,606,666 Shares held by Matrix Worldwide Corporation. Forever Triumph Limited is wholly and beneficially owned by Dr. Poon Kwok Lim Steven. Dr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of the SDI Ordinance, to be interested in the same 53,208,196 Shares held by Forever Triumph Limited.



- (2) Mr. Poon Shu Yan Joseph is an executive Director and one of the founders of the Group. As a result of his 10% interest in Amazing Nova Corporation, Mr. Poon Shu Yan Joseph is regarded as an Initial Management Shareholder and effectively holds 3.41% interest in the Company.
- (3) Supreme Lucky Ltd. is wholly and beneficially owned by Dr. Lee Peng Fei Allen and Ms. Choi Yuen Ha Maria. Ms. Choi Yuen Ha Maria is the spouse of Dr. Lee Peng Fei Allen. Dr. Lee Peng Fei Allen and Ms. Choi Yuen Ha Maria are deemed, by virtue of the SDI Ordinance, to be interested in the same 11,100,000 Shares held by Supreme Lucky Ltd.

Save as disclosed above, as at the Listing Date, none of the directors or their respective associates had any personal, family, corporate or other interests in the shares of the Company or its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, were required to be notified to the Company and the Stock Exchange.

## (2) Directors' and Chief Executive's rights to acquire shares

| Director                    | Number of Shares to be issued upon exercise of options | % of options granted over the issued share capital | Subscription price per Share (HK\$) |
|-----------------------------|--|--|-------------------------------------|
| Dr. Poon Kwok Lim Steven    | 8,334,000  | 1.693  | 0.12                                |
| Mr Poon Shu Yan Joseph      | 8,000,000  | 1.625  | 0.12                                |
| Mr Lee Shu Fan              | 2,767,000  | 0.562  | 0.21                                |
| Mr Tam Chi Keung            | 1,334,000  | 0.271  | 0.12                                |
| Ms. Au Yeung Pui Shan Karen | 667,000  | 0.135  | 0.21                                |

A portion of each grantee's right to exercise the option that has been conditionally granted under the Pre-IPO Share Option Scheme shall be deemed to have vested on 17th June, 2002 and the rest of the right shall continue to vest over a period of not more than 4 years from 17th June, 2002 on a monthly basis each time for 1/48th of the total number of Shares comprised in the option and, subject to that no option granted under the Pre-IPO Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant option.

Save as disclosed above, as at the Listing Date, none of the Directors or their associates were granted option to subscribe for Shares of the Company and none of the options has been exercised.

## SUBSTANTIAL SHAREHOLDERS

Other than the interests of the Directors and chief executive as disclosed above, as at the Listing Date, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company has not been notified of any substantial shareholders' interests, representing 10% or more of the issued share capital of the Company.



## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

The Company's shares were listed on GEM on 17th October 2002 by way of placement. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares since that date.

## SPONSORS' INTERESTS

The interests of Kingsway Capital Limited ("Kingsway") in the share capital of the Company as at 7th November 2002 are summarised below:

|  | <b>As at 7th November 2002</b> |  |
|--|--------------------------------|--|
|  | <b>Number of Shares</b>        | <b>Percentage of the<br/>issued share capital<br/>of the Company</b> |
| Kingsway                                   | Nil                            | Nil  |
| Kingsway's employees (excluding directors) | Nil                            | Nil  |
| Kingsway's directors                       | Nil                            | Nil  |
| Kingsway's associates                      | 25,000,000                     | 5.08%  |
| Total                                      | 25,000,000                     | 5.08%  |

Pursuant to the sponsorship agreement dated 8th October 2002 entered into between the Company and Kingsway for the purpose of Chapter 6 of the GEM Listing Rules, Kingsway has received and will receive fees for acting as the Company's sponsor for the remainder of the financial year of the Company ending 31st December, 2002 and two years thereafter or until the sponsorship agreement is terminated upon the terms and conditions set out therein.

Save as disclosed herein, Kingsway, its respective directors, employees and associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules), as at 7th November 2002, did not have any interests in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

## COMPETING INTERESTS

None of the Directors, the Initial Management Shareholders or the Substantial Shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.



## **AUDIT COMMITTEE**

The Company has established an audit committee on 22nd July, 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee comprises two independent non-executive Directors, namely Mr. Tsui Yiu Wa Alec, Mr Yeung Pak Sing and Mr. Yeung Pak Sing is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's annual reports and accounts, half-year reports and quarterly reports and providing advice and comments thereon to the board of Directors.

By Order of the Board  
**Dr. Poon Kwok Lim, Steven**  
*Chairman*

Hong Kong Special Administrative Region of the People's Republic of China  
7th November 2002