



V E R T E X

Communications & Technology Group Limited

(Incorporated in the Cayman Islands with Limited Liability)

(慧 峯 集 團 有 限 公 司)*

Interim Report
2003

*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 interim 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 interim 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 interim 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 interim 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.

SUMMARY

- For the six months ended 30th June 2003, the Group's turnover decreased by approximately 58%, as compared to the corresponding period last year to approximately HK\$3.6 million.
- The loss attributable to shareholders recorded approximately HK\$13 million.
- Loss per share for the six months ended 30th June 2003 is HK2.9 cents.
- The Board of Directors (the "Board") of Vertex Communications & Technology Group Limited does not recommend the payment of an interim dividend for the six months ended 30th June 2003.

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 and six months ended 30th June 2003, together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30th June		Six months ended 30th June	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Audited)
Turnover	(2)	1,732	4,472	3,641	8,599
Other operating income		27	26	69	54
Staff costs		(3,244)	(3,023)	(7,343)	(5,931)
Subcontracting costs		(1,377)	(2,766)	(2,851)	(4,410)
Depreciation		(305)	(418)	(650)	(812)
Royalty and production costs		(104)	(570)	(457)	(1,426)
Other operating expenses		(3,336)	(1,727)	(5,570)	(2,877)
Loss from operations	(4)	(6,607)	(4,006)	(13,161)	(6,803)
Share of results of an associate		(150)	–	(488)	–
Loss before taxation		(6,757)	(4,006)	(13,649)	(6,803)
Taxation credit	(5)	–	81	–	81
Loss before minority interests		(6,757)	(3,925)	(13,649)	(6,722)
Minority interests		89	339	234	566
Net loss for the period		(6,668)	(3,586)	(13,415)	(6,156)
Loss per share – Basic	(6)	HK\$(1.5) cents	HK(0.97) cents	HK\$(2.9) cents	HK(1.668) cents

CONDENSED CONSOLIDATED BALANCE SHEET

		30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment	(8)	4,684	5,735
Goodwill	(9)	3,706	3,289
Interest in an associate	(10)	1,407	887
Long term investment	(11)	6,000	–
		<u>15,797</u>	<u>9,911</u>
Current assets			
Inventories	(12)	71	71
Trade receivables	(13)	2,398	4,818
Amounts due from customers for contract work	(14)	1,438	625
Prepayments, deposits and other receivables		4,931	6,679
Deferred expenditure for publication		3,372	1,081
Amount due from an associate	(15)	1,006	379
Pledged bank deposits	(16)	–	2,033
Bank balances and cash		11,782	30,244
		<u>24,998</u>	<u>45,930</u>
Current liabilities			
Trade payables	(17)	330	1,560
Other payables and accrued expenses		928	1,214
Taxation		8	8
		<u>1,266</u>	<u>2,782</u>
Net current assets		<u>23,732</u>	<u>43,148</u>
		<u>39,529</u>	<u>53,059</u>
Capital and reserves			
Share capital		4,922	4,922
Reserves		33,938	47,353
		<u>38,860</u>	<u>52,275</u>
Minority interests		<u>669</u>	<u>784</u>
		<u>39,529</u>	<u>53,059</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2003

	Six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Net cash used in operating activities	(12,504)	(9,184)
Net cash used in investing activities	(5,958)	(3,035)
Net cash used in financing activities	–	(5,350)
Decrease in cash and cash equivalents	(18,462)	(17,569)
Cash and cash equivalents at beginning of period	30,244	26,450
Cash and cash equivalents at end of period	<u>11,782</u>	<u>8,881</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2003

	Share Capital	Share Premium	Special Reserve	Accumulated Losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July 2002	–	–	1,000	(4,479)	(3,479)
Share issued at premium	4,922	76,660	–	–	81,582
Share issue expenses	–	(9,977)	–	–	(9,977)
Loss for the six months ended 31st December 2002	–	–	–	(15,851)	(15,851)
At 31st December 2002	4,922	66,683	1,000	(20,330)	52,275
Net loss for the period	–	–	–	(13,415)	(13,415)
At 30th June 2003	<u>4,922</u>	<u>66,683</u>	<u>1,000</u>	<u>(33,745)</u>	<u>38,860</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June 2003

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The condensed interim financial statements are unaudited but have been reviewed by the audit committee of the Company.

The accounting policies and basis of preparation adopted for the preparation of the condensed interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December 2002 except that the Group has adopted SSAP 34 “Employee benefits” which prescribes the accounting and disclosure for employee benefits. However, this SSAP has no major impact on the condensed consolidated interim financial statements of the Group.

2. TURNOVER

	For the six months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Communication infrastructure service income	2,618	5,903
Service income from application and development of content delivery technology	1,023	990
Income from content productions, procurement and delivery		
Sales of magazines	–	518
Advertising income	–	1,188
	3,641	8,599

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating segments, namely communication infrastructure, application and development of content delivery technology and content production, procurement and delivery. These segments are the basis on which the Group reports its primary segment information. The principal activities of these segments are as follows:

- | | | |
|--|---|--|
| Communication infrastructure | – | Provision of communication infrastructure services |
| Application and development of content delivery technology | – | Provision of information technology solutions including web solutions, system integration and payment solution |
| Content production, procurement and delivery | – | Production and procurement of media contents, including traditional media and online contents. |

Segment information about these businesses is presented below.

Income statement for six months ended 30th June 2003

	Communication infrastructure HK\$'000	Application and Development of content delivery technology HK\$'000	Content production, procurement and delivery HK\$'000	Consolidated HK\$'000
TURNOVER	2,618	1,023	–	3,641
RESULTS				
Segment results	(982)	(2,562)	(648)	(4,192)
Other operating income				69
Unallocated corporate expenses				(9,038)
Loss from operations				(13,161)
Share of results of an associate				(488)
Loss for the period				(13,649)

Balance sheet as at 30th June, 2003

	Application and Development of content delivery technology	Content production, procurement and delivery	Consolidated
	Communication infrastructure HK\$'000	HK\$'000	HK\$'000
ASSETS			
Segment assets	6,171	9,581	20,412
Interest in an associate			1,407
Unallocated corporate assets			18,976
Consolidated total assets			40,795
LIABILITIES			
Segment liabilities	(276)	(462)	(832)
Unallocated corporate liabilities			(434)
Consolidated total liabilities			(1,266)

Other information for the six months ended 30th June 2003

	Application and Development of content delivery technology	Content production, procurement and delivery	Unallocated
	Communication infrastructure HK\$'000	HK\$'000	HK\$'000
Allowances for bad and doubtful debts	–	–	–
Additions to property, plant and equipment	–	159	91
Amortisation of goodwill	–	56	–
Depreciation	65	548	22

Income statement for six months ended 30th June 2002

	Communication infrastructure HK\$'000	Application and Development of content delivery technology HK\$'000	Content production, procurement and delivery HK\$'000	Consolidated HK\$'000
TURNOVER	5,903	990	1,706	8,599
RESULTS				
Segment results	668	(1,025)	(1,995)	(2,352)
Other operating income				54
Unallocated corporate expenses				(4,505)
Loss before taxation				(6,803)
Taxation credit				81
Loss after taxation				(6,722)

Balance sheet as at 30th June, 2002

	Communication infrastructure HK\$'000	Application and Development of content delivery technology HK\$'000	Content production, procurement and delivery HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	7,640	6,420	4,326	18,386
Unallocated corporate assets				14,077
Consolidated total assets				32,463
LIABILITIES				
Segment liabilities	2,035	–	807	2,842
Unallocated corporate liabilities				33,003
Consolidated total liabilities				35,845

Other information for the six months ended 30th June 2002

	Application and Development of content delivery technology	Content production, procurement and delivery	Unallocated
	Communication infrastructure HK\$'000	HK\$'000	HK\$'000
Allowances for bad and doubtful debts	-	45	-
Additions to property, plant and equipment	-	-	1,295
Amortisation of goodwill	-	-	135
Depreciation	55	641	5
	<u>55</u>	<u>641</u>	<u>5</u>
			<u>111</u>

The Group's operations are located in Hong Kong and other regions in the People's Republic of China ("PRC"). However, the Group's turnover are substantially derived in Hong Kong and its assets are also substantially located in Hong Kong. Accordingly, no analysis by geographical segment is presented.

4. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging (crediting):

	Three months ended		Six months ended	
	30th June		30th June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Amortisation of goodwill	154	54	253	135
Operating lease rentals in respect of land and buildings	551	632	1,103	1,146
Staff costs, including Directors' remuneration				
Retirement benefits scheme contributions	95	104	194	203
Salaries and allowances	3,149	2,919	7,149	5,728
	3,244	3,023	7,343	5,931
Allowance for bad and doubtful debts	-	-	-	45
Interest income on bank deposits	(27)	(26)	(69)	(54)

5. TAXATION

Hong Kong Profits Tax has not been provided for the six months ended 30th June 2003 (six months ended 30th June 2002: 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 six months ended 30th June 2003 (six months ended 30th June 2002: 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 (2002: Nil).

6. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30th June 2003 is based on the unaudited consolidated loss from ordinary activities attributable to shareholders of approximately HK\$13,415,000 (2002: loss of HK\$6,156,000) and on the weighted average number of 455,449,793 Shares (2002: 369,146,232 Shares) deemed to be in issue throughout the periods.

No diluted loss per share was presented as there were no dilutive potential shares in existence during the six months ended 30th June 2003 (six months ended 30th June 2002: Nil)

7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2003 (six months ended 30th June 2002: Nil).

8. FIXED ASSETS

The movements of fixed assets of the Group were:

	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Net book value, beginning of period/year	5,735	6,749
Additions	366	511
Acquisition of subsidiaries	–	1,244
Disposals	(767)	(1,128)
Depreciation	(650)	(1,641)
	<hr/>	<hr/>
Net book value, end of period/year	<u>4,684</u>	<u>5,735</u>

9. GOODWILL

	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Net book value, beginning of period/year	3,289	–
Acquisition of subsidiaries	670	3,585
Amortisation	(253)	(296)
	<u>3,706</u>	<u>3,289</u>

10. INTERESTS IN AN ASSOCIATE

	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Share of net assets	–	225
Premium on acquisition of an associate	1,407	662
	<u>1,407</u>	<u>887</u>

As at 30th June, 2003, the Group had interests in the following associate:

Name of entity	Form of business structure	Country of registration and operation	Class of share held	Proportion of nominal value of registered capital indirectly held by the Group	Name of business
Beijing CAV Vertex Digital Technology Company Limited ("Beijing CAV Vertex") 北京中錄慧峯數碼技術有限公司	Incorporated	PRC	Registered	51%	Provision of development of digital media technology services

The Group's entitlement to share in the profits of its associate is in proportion to its ownership interest.

11. LONG TERM INVESTMENT

	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Unquoted equity investment	<u>6,000</u>	<u>–</u>

12. INVENTORIES

The amount represented finished goods which are stated at net realisable value at the balance sheet date.

13. TRADE RECEIVABLES

The credit terms offered by the Group to its customers is 60 to 90 days. The aged analysis of trade receivables is stated as follows:

	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
0 to 30 days	242	847
31 to 60 days	13	308
61 to 90 days	3	2,235
91 to 180 days	1,123	885
Over 180 days	<u>1,017</u>	<u>543</u>
	<u>2,398</u>	<u>4,818</u>

14. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
Contracts in progress:		
Contract costs incurred plus recognised profit less recognised losses	1,438	625
Less: Progress billings	—	—
Amounts due from customers for contract works	<u>1,438</u>	<u>625</u>

15. AMOUNT DUE FROM AN ASSOCIATE

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

16. PLEDGED BANK DEPOSITS

A bank guarantee of HK\$2,000,000 issued under a performance bond granted to a customer of the Group has been released from the bank during the period. No bank deposits have been pledged with any financial institutions as at 30th June 2003.

17. TRADE PAYABLES

The aged analysis of trade payables is stated as follows:

	30th June 2003 HK\$'000 (Unaudited)	31st December 2002 HK\$'000 (Audited)
0 to 30 days	282	580
31 to 60 days	—	335
61 to 90 days	—	310
91 to 180 days	48	273
Over 180 days	—	62
	<u>330</u>	<u>1,560</u>

18. CAPITAL COMMITMENTS

	30th June	31st December
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Commitment to subscribe for shares of Net2Voice (Hong Kong) Limited	980	980

19. CONTINGENT LIABILITIES

A claim has been made against a wholly-owned subsidiary of the Company by the liquidator of a network service provider for approximately HK\$664,000 being services allegedly rendered by the service provider. The Directors are assessing the merits of this claim with the Company's legal advisors. Mr. Poon Kwok Lim, Steven, a Director of the Company, has provided an indemnity to the Group under which the Director will indemnify the Group for any losses resulting from such claim and the related charges if the Group is required to settle the claim. As such, no provision has been made in the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

The Company was listed on the GEM of the Stock Exchange through a placement of 123,050,000 shares. The net proceeds from placement, after deduction for relevant expenses, was approximately HK\$40 million. The Group intends to apply these proceeds in the manner disclosed in the prospectus of the Company dated 9th October 2002 (the "Prospectus"). For the period under review, the Group financed its operations with its own available funds and did not have any bank loans. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its operating and development requirements.

TREASURY POLICIES

Most of the transactions of the Group are denominated in Hong Kong Dollars and Renminbi. As the exchange rates of the Renminbi to Hong Kong Dollars are fairly stable and only minimum amount of Renminbi are kept in the PRC, the Directors are of the view that the exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the six months ended 30th June 2003. It has no plans for material investments in capital assets other than those set out in the Prospectus.

SIGNIFICANT INVESTMENT

The Company entered into an agreement with Teamwork Advertising Company Limited 天意華廣告有限公司 (“Teamwork”) on 22nd May 2003 to acquire 16% of the equity interest in Teamwork.

CAPITAL STRUCTURE

The shares of the Company were listed on the GEM of the Stock Exchange on 17th October 2002. There has been no change in the capital structure of the Company since that date. The capital of the Company comprises only ordinary shares.

HUMAN RESOURCES

As at 30th June 2003, the Group had 49 (2002: 48) employee working in Hong Kong and in the PRC. As at 30th June 2003, 3 employees had completed the required number of years of service under the Employment Ordinance (the “Ordinance”) to be eligible for long service payments on termination of their employment with the Group. The Group is only liable to make such payments where termination meets the required circumstances specified in the Ordinance. At 30th June 2003, the estimated contingent liabilities not provided for in the accounts for such purpose is not material.

Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance and individual's performance. In addition, the Group also provides mandatory provident fund scheme for the staff in Hong Kong and central pension scheme for the staff in the PRC.

FINANCIAL REVIEW

The Hong Kong economy for the first six months of 2003 was adversely affected by the war in Iraq. It then suffered severe damage by the unexpected outbreak of Severe Acute Respiratory Syndrome ("SARS"). The travel warning issued by the World Health Organization to Hong Kong and China brought a halt to most of the business travel for nearly two months. Certain business development and operations of the Group were severely interrupted during this period.

For the six months ended 30th June 2003, the Group recorded a substantial decrease in revenue of approximately HK\$5 million, representing a drop of approximately 58% over the corresponding period in 2002. The decrease in revenue was mainly attributable to less broadband communication infrastructure services undertaken by the Group for local broadband network carriers and deferral of publication of the Chinese language Newsweek Special Edition.

Staff cost for the six months under review increased to approximately HK\$7.3 million from approximately HK\$6 million for the same period in the previous year. The increase in staff cost was mainly attributable to payment of Directors' remuneration according to service contracts effective from the listing date of the Group on 17th October 2002.

The subcontracting costs for the six months ended 30th June 2003 amounted to approximately HK\$2.8 million, representing approximately 78% of the turnover. For the same period in previous year, the subcontracting cost was approximately HK\$4.4 million or 51% of the turnover. The percentage of subcontracting cost against turnover increased as the main bulk of turnover was generated from broadband communication infrastructure services where a relatively low profit margin is earned.

For the six months ended 30th June 2003, the royalty and production cost amounted to HK\$457,000, representing 12% of the turnover of the Group. The decrease in the royalty and production costs is attributed to the deferral of publication of Chinese language Newsweek Special Editions.

The other operating expenses for the six months ended 30th June 2003 amounted to approximately HK\$5.6 million. The increase in other operating expenses was mainly attributable to:

- (1) Disposal of furniture and fixture when Shanghai subsidiary moved to a new office;
- (2) Compliance and public relationship expenses after the Group was listed on GEM;
- (3) Increase in overseas traveling expenses incurred in business development in the PRC; and
- (4) Business development expenses incurred in pursuing business opportunities in the PRC and Hong Kong.

BUSINESS REVIEW AND PROSPECTS

The Group's businesses in first half of 2003 had been challenging. The Group's major clients in telecom sector, which were the Group main revenue contributors in year 2002, were greatly affected by less than optimistic business environment in Hong Kong, while the Group's development in China was slowed down by the outbreak of SARS in Hong Kong and China for a few months.

The Group anticipates that the Hong Kong market for technology services and network engineering will improve slightly by the third quarter of 2003. The Group has also opened new revenue streams by establishing an operation presence in Macau and engaging in fiber back-bone network engineering for a large telecom operator in Hong Kong. The Group believes that these new revenue streams will fuel the Hong Kong business in the second half of 2003.

The Group's Beijing operation, after 8 months of operation is achieving operation break-even. The Group believes that the Beijing market for technology and digital media services will improve by the forth quarter of 2003.

Preparation of Newsweek Select and MIT Technology Review Chinese Edition continues on schedule despite the outbreak of SARS and interruption of business activities between Hong Kong and China during the period. The Group anticipates the development and preparation works for the two magazines will be completed by third quarter of 2003. By the forth quarter of 2003, both magazines will be launched in the market.

To strengthen the Group's position in the media business, the Group has established a partnership with Teamwork Advertising. Teamwork is a sizable media-rep company in China. In May 2003, the Group acquired 16% of the equity interest in Teamwork, and the Group has an option to acquire an additional 4%. Teamwork will be the sole agent for Newsweek Select's advertising sales in China Mainland. The Group anticipates that Teamwork will bring in profit for the Group in 2003.

COMPARISON OF BUSINESS PROGRESS AND USE OF PROCEEDS

Business Objectives for the Review Period as set out in the Prospectus	Actual Business Progress in the Review Period
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Closely monitor and match up the development of broadband and 3G networks in the Greater China Region

- | | |
|---|--|
| <ul style="list-style-type: none">• Expand its engineering work force to handle the increasing demand of broadband and 3G telecommunication infrastructure services | <ul style="list-style-type: none">• The expansion plan will be deferred in accordance with the development of 3G in Hong Kong. |
|---|--|

Vertex Communications & Technology Group Limited

- Conduct a testing on the capability of 3G network in delivering multimedia content
- The testing on 3G network will be carried out when 3G is ready to launch in Hong Kong.

Develop cross-media content delivery business in the Greater China Region

- Trial test the electronic publishing platform and its integration with content delivery technologies
- The development of electronic platform will be deferred until the print version of Newsweek Select and other magazines are well received by the market.
- Continue to negotiate with property developers in the PRC for installation of i-Home
- On going

Strengthen its expertise in communication technology

- Complete the development of e-mail platform equipped with voice and language technologies
- Due to the uncertainty of world economy, the development of e-mail platform equipped with voice and language technologies will be deferred until the market acceptance of this technology is more mature. However, the Group continues to focus on developing its expertise in communication and technology section in the Greater China Region.

Develop new products and services, and strengthen its presence in the Greater China Region

- Introduce renowned magazines from international media companies to the PRC media market
- Signed with MIT Technology Review Inc. to publish MIT Technology Review in Chinese language for Greater China Market.
- Consolidated strategic relationships with online media partners in the PRC through joint marketing campaign
- Entered into an agreement with Teamwork Advertising Company Limited for acquisition 16% of its equity interest

USE OF PROCEEDS FROM THE GROUP'S INITIAL PUBLIC OFFERING ("IPO")

The net proceeds raised from the Group's Initial Public Offering (IPO) on the GEM board of The Stock Exchange of Hong Kong Limited, after deduction of related expenses pursuant to the IPO, were approximately HK\$40 million. The net proceeds were applied during the six months period ended 30 June 2003 as follows:

	Intended use of net proceeds as set out in the Prospectus	Actual use of net proceeds as of 30th June 2003	Notes
	HK\$'000	HK\$'000	
Expand network infrastructure services in the Greater China Region	900	–	(1)
Develop cross-media content delivery business in the Greater China Region	2,100	2,378	
Develop and strengthen its expertise in communication technology	2,600	3,378	(2)
Develop new products and services, and strengthen its presence in the Greater China Region	4,800	15,224	(3)
	<u>10,400</u>	<u>20,980</u>	
Total	<u>10,400</u>	<u>20,980</u>	

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. In accordance with the actual development of the market, the Group has made corresponding amendments to its business objectives.

- (1) In accordance with the changes in market conditions, development of broadband and 3G network in the Greater China Region has been deferred to the coming years.
- (2) The time required by certain projects in the PRC was more than what was originally expected, therefore, the amount of resources committed was likewise increased.
- (3) The excess utilization of fund as compared to the intended use of net proceeds as stated in the Prospectus is mainly attributable to the acquisition of equity investment in strategic business partners in the PRC and the production cost incurred in development of Chinese Newsweek Select and MIT Technology Review.

The Group intends to utilize the remaining unused proceeds in subsequent periods. The remaining net proceeds as at 30th June 2003 of approximately HK\$11.7 million was placed on deposits with licensed banks in Hong Kong. The unused proceeds will be used to achieve the objectives set out in the Prospectus.

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 30th June 2003, options to subscribe for an aggregate of 25,634,000 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:

Name of grantee	Exercise price per share HK\$	Number of options		
		Granted on 24.7.2002	Lapsed during the period	Outstanding at 30.6.2003
Directors	0.12	17,668,000	1,334,000	16,334,000
	0.21	3,434,000	—	3,434,000
		<u>21,102,000</u>	<u>1,334,000</u>	<u>19,768,000</u>
Advisors and consultants	0.12	434,000	—	434,000
	0.45	1,334,000	—	1,334,000
		<u>1,768,000</u>	<u>—</u>	<u>1,768,000</u>
Employees	0.12	3,292,000	87,000	3,205,000
	0.21	963,000	70,000	893,000
		<u>4,255,000</u>	<u>157,000</u>	<u>4,098,000</u>
		<u>27,125,000</u>	<u>1,491,000</u>	<u>25,634,000</u>

Save as disclosed above, as at 30th June 2003, 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 Securities and Futures Ordinance (“SFO”).

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.

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 INTERESTS IN THE COMPANY

As at 30th June 2003, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the SFO which were notified to the Company and the Stock 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 provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(1) SHARES OF THE COMPANY

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

Notes:

1. Mr. 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. Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of the SFO, to be interested in the same 167,886,666 Shares held by Amazing Nova Corporation. Matrix Worldwide Corporation is wholly and beneficially owned by Mr. Poon Kwok Lim, Steven. Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of the SFO, to be interested in the same 61,606,666 Shares held by Matrix Worldwide Corporation. Forever Triumph Limited is wholly and beneficially owned by Mr. Poon Kwok Lim, Steven. Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of the SFO, to be interested in the same 53,208,196 Shares held by Forever Triumph Limited.
2. Mr. Poon Shu Yan 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 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 Mr. Lee Peng Fei, Allen and Ms. Choi Yuen Ha, Maria. Ms. Choi Yuen Ha, Maria is the spouse of Mr. Lee Peng Fei, Allen. Mr. Lee Peng Fei, Allen and Ms. Choi Yuen Ha, Maria are deemed, by virtue of the SFO, to be interested in the same 11,100,000 Shares held by Supreme Lucky Ltd.

(2) SHARES IN ASSOCIATED CORPORATION OF THE COMPANY

Director	Note	Name of associated corporation
Mr. Poon Kwok Lim, Steven	1	SinoWorld CNW Publishing Limited (華宇出版有限公司)

Note:

1. Mr. Poon Kwok Lim, Steven is the beneficial owner of Forever Triumph Limited, which owns 10% of SinoWorld CNW Publishing Limited (華宇出版有限公司), a company of which the Company is indirectly interested in 64% of its share capital.

Save as disclosed above, as at 30th June 2003, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provision of the SFO) or which were required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred in Rule 5.40 to 5.59 of the GEM Listing Rules.

(3) 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\$)
Mr. 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
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 30th June 2003, 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

So far as is known to any Directors or chief executives of the Company, as at 30th June 2003, shareholders of the Company (including Directors or chief executives of the Company) who have interests or short positions in the shares or underlying shares of the Company or any of its associated corporation which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Notes	Number of shares held	Shareholding percentage
Mr. Poon Kwok Lim	1, 2, 3	282,701,528	57.44
Mrs. Poon Wong Wai Ping	1, 2, 3	282,701,528	57.44
Amazing Nova Corporation	1	167,886,666	34.11
Matrix Worldwide Corporation	2	61,606,666	12.51
Forever Triumph Limited	3	53,208,196	10.81
Bahrain Middle East Bank (E.C.)	4	28,729,812	5.84

Notes:

1. Amazing Nova Corporation is beneficially owned as to 40% by Mr. Poon Kwok Lim, Steven (a Director), as to 40% by Mrs. Poon Wong Wai Ping (spouse of Mr. Poon Kwok Lim, Steven), as to 10% by Mr. Poon Shu Yan, Joseph (a Director) and as to the remaining 10% by Ms. Poon Ching Mei (daughter of Mr. Poon Kwok Lim, Steven). Mrs. Poon Wong Wai Ping and Ms. Poon Ching Mei have no management role in the Group. Under the SFO, Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are deemed to have interests in the same 167,886,666 shares held by Amazing Nova Corporation as Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are entitled to exercise more than one-third of the voting power at a general meeting of Amazing Nova Corporation.

2. Matrix Worldwide Corporation is wholly and beneficially owned by Mr. Poon Kwok Lim, Steven. Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of SFO, to be interested in the same 61,606,666 shares held by Matrix Worldwide Corporation.
3. Forever Triumph Limited is wholly and beneficially owned by Mr. Poon Kwok Lim, Steven. Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of SFO, to be interested in the same 53,208,196 shares held by Forever Triumph Limited.
4. Bahrain Middle East Bank (E.C.) is a company listed on the Bahrain Stock Exchange since June 1989. Its principal business is banking and equity investment. Bahrain Middle East Bank (E.C.) has no involvement in the management of the Group.

Save as disclosed above, as at 30th June 2003, the Directors are not aware of any other person who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of SFO, or who is interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group.

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

During the review period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

SPONSORS' INTERESTS

As updated by the Company's sponsor, Kingsway Capital Limited ("Kingsway"), the interests of Kingsway in the share capital of the Company as at 30th June 2003 is summarized below:

As at 30th June 2003

Kingsway	Nil
Kingsway's employees (excluding directors)	Nil
Kingsway's directors	Nil
Kingsway's associates	18,000,000
	<hr/>
Total	18,000,000
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Pursuant to the sponsorship agreement dated 8th October 2002 entered into between the Company and Kingsway, Kingsway has received and will receive fees for acting as the Company's sponsor for the year ended 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 above, neither Kingsway nor its directors or employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company or any other companies in the Group (including options or right to subscribe for such share capital) as at the date of this report.

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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the review period.

AUDIT COMMITTEE

As required by Rule 5.23, 5.24 and 5.25 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. 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

Vertex Communications & Technology Group Limited

Mr. Poon Kwok Lim, Steven

Chairman

Hong Kong Special Administrative Region of the People's Republic of China
12th August 2003