



# VERTEX

Communications & Technology Group Limited

(Incorporated in the Cayman Islands with Limited Liability)

(慧峰集團有限公司)\*

Interim Report **2005**

## 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.

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*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 (the “GEM Listing Rules”) 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: i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. 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.*

## 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, 2005, together with the comparative figures for the corresponding period in 2004 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30th June		Six months ended 30th June	
		2005	2004	2005	2004
		HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Turnover	(2)	3,519	1,197	5,201	1,631
Other operating income		30	12	61	13
Staff costs		(3,291)	(2,873)	(6,250)	(5,788)
Subcontracting costs		(482)	(678)	(611)	(1,042)
Depreciation		(128)	(242)	(338)	(548)
Royalty and production costs		(3,718)	(1,903)	(6,377)	(2,911)
Other operating expenses		(3,367)	(3,243)	(5,450)	(7,338)
Loss from operations	(4)	(7,437)	(7,730)	(13,764)	(15,983)
Finance Cost		(78)	(108)	(156)	(108)
Gain on partial disposal of a subsidiary		19,800	-	19,800	-
Profit/(Loss) before taxation		12,285	(7,838)	5,880	(16,091)
Taxation	(5)	-	-	-	-
Profit/(Loss) before minority interests		12,285	(7,838)	5,880	(16,091)
Minority interests		26	-	26	408
Net profit/(loss) for the period		12,311	(7,838)	5,906	(15,683)
Earning/(Loss) per share	(6)				
- Basic		HK\$2.46 cents	HK\$(1.6) cents	HK\$1.18 cents	HK\$(3.2) cents
- Diluted		HK\$2.33 cents	HK\$(1.6) cents	HK\$1.12 cents	HK\$(3.2) cents

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	(8)	2,533	2,213
Long term investment	(9)	1,400	1,400
		<b>3,933</b>	3,613
<b>Current assets</b>			
Trade receivables	(10)	4,220	3,973
Amounts due from customers for contract work	(11)	378	424
Prepayments, deposits and other receivables		1,017	649
Bank balances and cash		24,191	10,225
		<b>29,806</b>	15,271
<b>Current liabilities</b>			
Trade payables	(12)	3,949	1,789
Other payables and accrued expenses		2,861	4,076
Taxation		8	8
		<b>6,818</b>	5,873
<b>Net current assets</b>			
		<b>22,988</b>	9,398
		<b>26,921</b>	13,011
<b>Capital and reserves</b>			
Share capital		5,293	4,954
Reserves		(846)	(16,243)
		<b>4,447</b>	(11,289)
<b>Minority interests</b>			
		<b>174</b>	-
<b>Non-Current liabilities</b>			
Amount due to a related company		6,700	8,700
Bond		15,600	15,600
		<b>22,300</b>	24,300
		<b>26,921</b>	13,011

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2005

	Six months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	<b>(13,179)</b>	(12,500)
Net cash (outflow) inflow in investing activities	<b>(659)</b>	132
Net cash inflow from financing activities	<b>27,804</b>	17,989
Increase in cash and cash equivalents	<b>13,966</b>	5,621
Cash and cash equivalents at beginning of period	<b>10,225</b>	1,500
Cash and cash equivalents at end of period	<b>24,191</b>	7,121

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30th June 2005*

	<b>Share Capital</b>	<b>Share Premium</b>	<b>Special Reserve</b>	<b>Accumulated Losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st January 2004	4,922	66,683	1,000	(55,882)	16,723
Share issue at premium	32	357	-	-	389
Net loss for the period	-	-	-	(15,683)	(15,683)
At 30th June 2004	4,954	67,040	1,000	(71,565)	1,429
At 1st January 2005	4,954	67,040	1,000	(84,283)	(11,289)
Share issue at premium	339	9,491	-	-	9,830
Profit for the period	-	-	-	5,906	5,906
At 30th June 2005	5,293	76,531	1,000	(78,377)	4,447

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30th June 2005*

### **1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

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 unaudited interim financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules. The measurement basis used in the preparation of the financial statements is historical cost.

In 2004, HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has considered those new HKFRSs but does not expect that the issuance of those new HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

The 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 interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December 2004.

**2. TURNOVER**

	<b>For the six months ended 30th June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
Communication infrastructure service income	-	428
Service income from application and development of content delivery technology	<b>664</b>	706
Income from content productions, procurement and delivery		
Sales of magazines	<b>36</b>	41
Advertising income	<b>4,501</b>	456
	<hr style="border: 1px solid black;"/>	
	<b>5,201</b>	1,631
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**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 2005*

	Communication infrastructure <i>HK\$'000</i>	Application and Development of content delivery technology <i>HK\$'000</i>	Content production, procurement and delivery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>	-	664	4,537	5,201
<b>RESULTS</b>				
Segment results	(65)	(380)	(6,474)	(6,919)
Other operating income				61
Unallocated corporate expenses				(7,062)
Loss from operations				(13,920)
Gain on partial disposal of a subsidiary				19,800
Profit for the period				5,880

*Balance sheet as at 30th June, 2005*

	Communication infrastructure <i>HK\$'000</i>	Application and Development of content delivery technology <i>HK\$'000</i>	Content production, procurement and delivery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	534	295	6,097	6,926
Interest in an associate				0
Unallocated corporate assets				26,813
Consolidated total assets				33,739
<b>LIABILITIES</b>				
Segment liabilities	(42)	(630)	(4,832)	(5,504)
Unallocated corporate liabilities				(23,614)
Consolidated total liabilities				(29,118)

*Other information for the six months ended 30th June 2005*

	Communication infrastructure <i>HK\$'000</i>	Application and Development of content delivery technology <i>HK\$'000</i>	Content production, procurement and delivery <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>
Allowances for bad and doubtful debts	-	-	-	-
Additions to property, plant and equipment	-	-	438	220
Depreciation	-	83	62	193

*Income statement for six months ended 30th June 2004*

	Communication infrastructure <i>HK\$'000</i>	Application and Development of content delivery technology <i>HK\$'000</i>	Content production, procurement and delivery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover	428	706	497	1,631
Results				
Segment results	(79)	(1,906)	(5,487)	(7,472)
Other operating income		13		13
Unallocated corporate expenses				(8,632)
Loss from operations				(16,091)
Share of results of an associate				-
Loss for the period				(16,091)

*Balance sheet as at 31st December, 2004*

	Communication infrastructure <i>HK\$'000</i>	Application and Development of content delivery technology <i>HK\$'000</i>	Content production, procurement and delivery <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	2,245	3,621	5,679	11,545
Interest in an associate				0
Unallocated corporate assets				13,390
Consolidated total assets				24,935
<b>LIABILITIES</b>				
Segment liabilities	(275)	(359)	(1,025)	(1,659)
Unallocated corporate liabilities				(21,847)
Consolidated total liabilities				(23,506)

*Other information for the six months ended 30th June 2004*

	Communication infrastructure <i>HK\$'000</i>	Application and Development of content delivery technology <i>HK\$'000</i>	Content production, procurement and delivery <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>
Allowances for bad and doubtful debts	-	-	-	-
Additions to property, plant and equipment	-	-	26	8
Amortisation of goodwill	-	-	437	-
Depreciation	43	441	26	38

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 is 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 30th June		Six months ended 30th June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Amortisation of goodwill and deferred expenditure for publication	-	218	-	437
Operating lease rentals in respect of land and buildings	413	439	885	973
Staff costs, including directors' remuneration				
Retirement benefits scheme contributions	65	69	154	145
Salaries and allowances	3,226	2,804	6,096	5,643
	<b>3,291</b>	<b>2,873</b>	<b>6,250</b>	<b>5,788</b>
Allowance for bad and doubtful debts	-	-	-	-
Interest income on bank deposits	30	-	34	(1)

**5. TAXATION**

Hong Kong Profits Tax has not been provided for the six months ended 30th June 2005 (six months ended 30th June 2004: 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 2005 (six months ended 30th June 2004: 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 (2004: Nil).

**6. EARNING/(LOSS) PER SHARE****(a) Basic**

The calculation of basic earning per share for the six months ended 30th June 2005 is based on the unaudited consolidated profit from ordinary activities attributable to shareholders of approximately HK\$5,906,000 (six months ended 30th June 2004: loss of HK\$15,683,000) and on the weighted average number of 499,456,260 Shares (six months ended 30th June 2004: 493,434,399 Shares) deemed to be in issue throughout the periods.

**(b) Diluted**

The calculation of diluted earnings per share for the three months and six months ended 30th June 2005 is based on the profit attributable to shareholders of approximately HK\$12,311,000 and HK\$5,906,000 respectively and weighted average number of 499,456,260 ordinary shares in issue during the period plus the weighted average number of 28,782,000 ordinary shares assumed to have been issued on the deemed exercise of all share options and warrants outstanding during the period.

**7. DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2005 (six months ended 30th June 2004: Nil).

**8. FIXED ASSETS**

The movements of fixed assets of the Group were:

	<b>30th June</b>	31st December
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Net book value, beginning of period/year	<b>2,213</b>	4,398
Additions	<b>658</b>	848
Disposals	-	(1,945)
Depreciation	<b>(338)</b>	(1,088)
	<b>2,533</b>	2,213

**9. LONG TERM INVESTMENT**

	<b>30th June</b>	31st December
	<b>2005</b>	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Unquoted equity investment	<b>6,000</b>	6,000
Impairment loss recognised	<b>(4,600)</b>	(4,600)
	<b>1,400</b>	1,400

The amount represents the Group's investments in 天意華創峰廣告有限公司. The company is established in the PRC. The Group holds a 16% equity interest in the company.



**10. 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:

	<b>30th June 2005 HK\$'000 (Unaudited)</b>	31st December 2004 HK\$'000 (Audited)
0 to 60 days	<b>2,421</b>	2,601
61 to 90 days	-	749
91 to 180 days	<b>1,799</b>	186
Over 180 days	-	437
	<hr/> <b>4,220</b>	<hr/> 3,973

**11. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK**

	<b>30th June 2005 HK\$'000 (Unaudited)</b>	31st December 2004 HK\$'000 (Audited)
Contracts in progress:		
Contract costs incurred plus recognised profit less recognized loss	<b>378</b>	424
Less: Progress billings	-	-
	<hr/> <b>378</b>	<hr/> 424
Amounts due from customers for contract works	<hr/> <b>378</b>	<hr/> 424

**12. TRADE PAYABLES**

The aged analysis of trade payables is stated as follows:

	<b>30th June 2005</b>	31st December 2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	<b>(Audited)</b>
0 to 60 days	<b>2,654</b>	1,634
61 to 90 days	<b>390</b>	49
91 to 180 days	<b>905</b>	-
Over 180 days	<b>-</b>	106
	<b>3,949</b>	1,789

**13. CONTINGENT LIABILITIES**

As at 30th June 2005, the Group has no significant contingent liabilities.

**LIQUIDITY AND FINANCIAL RESOURCES**

As at 30th June 2005, the Group has cash and bank balances amounting to a total of approximately HK\$24 million (31st December 2004: HK\$10 million) and the Group had net current assets of approximately HK\$23 million (31st December 2004: HK\$9 million). For the period under review, the Group financed its operations with its own available funds as well as proceeds from the bond issued, and did not have any bank loans.

**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**

On 12th April 2005, 200,000 shares of HK\$1.00 each in the share capital of Coastal Power Company Limited, a then wholly owned subsidiary, representing 20% of its total share capital were transferred to Sheikh Ali Khalifa Athbi Al Sabah at a consideration of HK\$20 million. As at 30th June 2005, Coastal Power Company Limited is an intermediate company of holding directly 30% of the equity interest in China Hong Kong Power Development Company Limited which will be principally engaged in the electric power generation and electricity supply business in Hong Kong.

Save as the above, the Group had no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the six months ended 30th June 2005.

## **SIGNIFICANT INVESTMENT**

The Group has no significant investment during the six months ended 30th June 2005.

## **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 2005, the Group had 52 (30th June 2004: 25) employee working in Hong Kong and in the PRC. As at 30th June 2005, 6 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 2005, 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

For the six months ended 30th June 2005, the Group recorded an increase in revenue of approximately HK\$3.5 million, representing a surge of approximately 219% over the corresponding period in 2004. Since the end of 2004, the Group has focused its resources on the development of its media publishing business for the PRC market. For the period under review, the proportion of revenue generated from media publishing business increased from 30% to 87% as compared to the same period in the previous year.

Staff cost for the six months under review increased to approximately HK\$6.25 million from approximately HK\$5.8 million for the same period in the previous year. The increase in staff cost was mainly attributable to setting up of sales and editorial teams in Beijing and Shanghai during the second half of the year.

The subcontracting costs for the six months ended 30th June 2005 amounted to approximately HK\$0.6 million, representing approximately 11% of the turnover. For the same period in previous year, the subcontracting cost was approximately HK\$1 million or 64% of the turnover. The decrease in subcontracting cost is in line with the decrease in turnover in communication infrastructure and system integration solution business.

For the six months ended 30th June 2005, the royalty and production cost amounted to HK\$6.4 million. The increase in the royalty and production costs was attributed to royalty and production cost in relation to the publication of Chinese language Newsweek, MIT Technology Review and ESPN The Magazine in Hong Kong and the PRC during the period under review.

The other operating expenses for the six months ended 30th June 2005 amounted to approximately HK\$5.4 million. Much more other operating expenses incurred in the corresponding period in 2004 was mainly attributable to compliance, legal and professional expenses in relation to issuance of bonds in an aggregate amount of HK\$15.5 million on 26 February 2004.

The gain of HK\$19.8 million arose from disposal of 200,000 shares of Coastal Power Company Limited, representing 20% of its total share capital, to Sheikh Ali Khalifa Athbi Al Sabah at a consideration of HK\$20 million.

## BUSINESS REVIEW AND PROSPECTS

Management is positive about the potential and growth of the titles of magazines under the Group. We anticipate the advertising sales at second half of the year will be at the up side as advertisers are getting more receptive to the titles. As part of our strategy to expand different revenue streams, we have successfully secured a contract with Hong Kong Trade Development Council for organizing a CFO forum in Shanghai on 1st November 2005. The objective of the forum is to promote Hong Kong as an international financial hub and the ideal partner in facilitating the growth of mainland enterprises. The targeted audience includes chief executive officers and chief financial officers in mainland China. We will invite leading personalities in Hong Kong financial institutes as speakers, sharing their views on practical financial issues facing mainland Chinese companies and how these companies can make use of Hong Kong's services to expand their business.

We are in the process of setting up our advertising and editorial teams for ESPN the Magazine Chinese language in Beijing and Shanghai. Teamed up with our colleagues in Hong Kong, ESPN the Magazine Chinese language was successfully launched in July in the PRC with positive feedback from the market. We will continue to strengthen the brand images and position the magazine as the first international renowned Chinese sport magazine with international and local contents in the PRC market.

We will continue to explore different business opportunities that will bring us to another path of profitability in the years to come. On 29th March 2005, the Company entered into a shareholders' agreement with China Power International Holding Limited to form a joint venture company ("JV"). This JV will be engaged in the electric power generation and electricity supply business in Hong Kong. On 12th April 2005, the Group disposed 20% equity interest in an intermediate holding company, Coastal Power Company Limited ("Coastal Power") which is holding 30% of the equity interest in the JV, for a cash consideration of HK\$20 million to one of our strategic investors, Sheikh Ali Khalifa Athbi Al Sabah ("Sheikh Ali"). We believe the participation by Sheikh Ali will help us to open up the channels for further funds being available to support Coastal Power's investment in the JV.

## 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 2005, options to subscribe for an aggregate of 1,782,000 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:

Category of participants	Exercise price per share <i>HK\$</i>	Number of Options			Outstanding as at 30th June 2005
		Held as at 1 January 2005	Exercised during the period	Lapsed during the period	
Directors	0.12	16,334,000	16,330,000	-	4,000
	0.21	667,000	665,000	-	2,000
		17,001,000	16,995,000	-	6,000
Advisors and consultants	0.12	-	-	-	-
	0.45	1,334,000	-	-	1,334,000
		1,334,000	-	-	1,334,000
Employees	0.12	434,000	430,000	-	4,000
	0.21	868,000	430,000	-	438,000
		1,302,000	860,000	-	442,000
		19,637,000	17,855,000	-	1,782,000

Save as disclosed above, as at 30th June 2005, 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

The Post-IPO Share Option scheme was conditionally approved by a written resolution of the sole shareholder dated 22nd July, 2002. The share options to subscribe for an aggregate of 2,000,000 shares of the Company were granted by the Company pursuant to the Post-IPO Share Option Scheme at the 4th quarter of 2004. The grantee's right to exercise the share options shall vest over a period of 4 years from 2nd July, 2004 on a monthly basis each time for 1/48th of the total number of shares comprised in the share option and, subject to that no shares option granted under the Post-IPO Share Option Scheme can be exercised before 2nd July, 2005, any vested right shall remain exercisable on or before 10th October, 2014. The details of the Post-IPO Share Option Scheme are set out as follows:

Category of participant	Exercise price per share <i>HK\$</i>	Granted on 11.10.2004	Held as at 1 January 2005	No. of options		
				Exercised during the period	Lapsed during the period	Outstanding as at 30th June 2005
Employee	0.152	2,000,000	2,000,000	-	-	2,000,000

Save as disclosed above, as at 30th June 2005, 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 SFO.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th June 2005, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares of the Company or any of its associated corporations within the meaning of Part XV of the SFO which require notification 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 any such director or chief executive is 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 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### (1) Long Position in Shares

Name of 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 beneficial owner	273,031,528	51.58
Mr. Poon Shu Yan, Joseph		Beneficial owner	8,000,000	1.51
Mr. Tam Tak Wah		Beneficial owner	120,000	0.02
Ms. Au Yeung Pui Shan, Karen		Beneficial owner	665,000	0.13
Mr. Mok Hay Hoi		Beneficial owner	430,000	0.08

*Notes:*

1. Each of Mr. Poon Kwok Lim, Steven and his spouse, Mrs. Poon Wong Wai Ping, is entitled to exercise or control the exercise of one-third or more of the voting rights of Amazing Nova Corporation. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is 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. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is 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. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed, by virtue of the SFO, to be interested in the same 13,208,196 Shares held by Forever Triumph Limited. Bright World Enterprise Limited is beneficially owned as to 80% by Mr. Poon Kwok Lim Steven and as to 20% by Mrs. Poon Wong Wai Ping. Under the SFO, each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed to be interested in the same 22,000,000 Shares held by Bright World Enterprise Limited. By virtue of the SFO, Mrs. Poon Wong Wai Ping is deemed to be interested in the same 8,330,000 shares directly beneficially owned by Mr. Poon Kwok Lim, Steven.

(2) **Shares in Associated Corporation of the Company**

<b>Director</b>	<i>Note</i>	<b>Name of associated corporation</b>
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 4.87% of SinoWorld CNW Publishing Limited (華宇出版有限公司), a company of which the Company is indirectly interested in 63.55% of its share capital.

Save as disclosed above, as at 30th June 2005, none of the Directors or chief executive 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 require notification 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 entered in the register required to be kept under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred in Rule 5.46 to 5.68 of the GEM Listing Rules.

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

Director	Number of Shares	% of options	Subscription price per Share (HK\$)
	to be issued upon exercise of options	granted over the issued share capital	
Mr. Poon Kwok Lim, Steven	4,000	-	0.12
Ms. Au Yeung Pui Shan, Karen	2,000	-	0.21
Mr. Mok Hay Hoi	4,000	-	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 2005, none of the Directors or chief executives of the Company or their respective associates were granted option to subscribe for shares of the Company and none of the options has been exercised.

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware as at 30th June 2005, the person/entities (including Directors or chief executives of the Company) who have interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO were as follows:

<b>Name of shareholder</b>	<i>Notes</i>	<b>Number of shares held</b>	<b>Shareholding percentage</b>
Mr. Poon Kwok Lim Steven	1, 2, 3, 4, 5	273,031,528	51.58
Mrs. Poon Wong Wai Ping	1, 2, 3, 4, 5	273,031,528	51.58
Amazing Nova Corporation	1	167,886,666	31.72
Matrix Worldwide Corporation	2	61,606,666	11.64
Forever Triumph Limited	3	13,208,196	2.50
Bright World Enterprise Limited	4	22,000,000	4.16
Deutsche Bank		63,235,000	11.95

<b>Name</b>	<i>Notes</i>	<b>Number of issued shares</b>	<b>Number of shares issuable upon the exercise of the warrants</b>	<b>Total percentage of the issued capital of the Company</b>
LIM Asia Arbitrage Fund Inc.	6	2,600,000	25,000,000	5.21

*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, each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed to be interest in the same 167,886,666 shares held by Amazing Nova Corporation as each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is 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. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is 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. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed, by virtue of SFO, to be interested in the same 13,208,196 shares held by Forever Triumph Limited.
4. Bright World Enterprise Limited is beneficially owned as to 80% by Mr. Poon Kwok Lim Steven and as to 20% by Mrs. Poon Wong Wai Ping. Under the SFO, each of Mr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping is deemed to be interested in the same 22,000,000 Shares held by Bright World Enterprise Limited.
5. By virtue of the SFO, Mrs. Poon Wong Wai Ping is deemed to be interested in the same 8,330,000 shares directly beneficially owned by Mr. Poon Kwok Lim, Steven.
6. The warrants are unlisted physically settled warrants which were issued on 26th February 2004 and are exercisable at any time during the period from 27th February 2004 to 27th February 2009 (both dates inclusive) at an initial subscription price of HK\$0.474 per share (subject to adjustment).

Save as disclosed above, as at 30th June 2005, 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.

## **COMPETING INTERESTS AND CONFLICT OF INTERESTS**

None of the Directors, the 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 or has any other conflict of interest with the Group.

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## **CORPORATE GOVERNANCE**

The Board considers that the Company has complied with the Code of Corporate Governance Practice and Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 with effective from the accounting periods from 1 January 2005.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30th June 2005.

## AUDIT COMMITTEE

As required by Rule 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee on 22nd July, 2002 with written terms of reference which deal clearly with its authority and duties. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises three independent non-executive Directors, namely Mr. Tsui Yiu Wa Alec, Mr. Yeung Pak Sing and Mr. Tam Tak Wah. Mr. Tam Tak Wah is the chairman of the audit committee.

The Group's unaudited results for the six months ended 30th June 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.

As at the date of this report, the Directors are as follows:

*Executive directors:*

Mr. Poon Kwok Lim, Steven  
Mr. Poon Shu Yan, Joseph  
Mr. Mok Hay Hoi

*Independent non-executive directors:*

Mr. Tsui Yiu Wa, Alec  
Mr. Yeung Pak Sing  
Mr. Tam Tak Wah

By Order of the Board  
**Vertex Communications & Technology Group Ltd**  
**Mr. Poon Kwok Lim, Steven**  
*Chairman*

Hong Kong Special Administrative Region of the People's Republic of China  
9th August 2005