



# V E R T E X

Communications & Technology Group Limited

(慧峯集團有限公司)\*

(Incorporated in the Cayman Islands with limited liability)

## 2005

THIRD QUARTERLY REPORT

\* For identification only

## Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “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 of GEM.

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

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*The report, for which the directors of Vertex Communications & Technology Group Limited (the “Company”) collectively and individually accept full responsibility, include 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.*

*As at the date of this report, the board of directors of the Company comprises six directors, of which three are executive directors, namely, Mr. Poon Kwok Lim Steven, Mr. Poon Shu Yan Joseph and Mr. Mok Hay Hoi, and three are independent non-executive directors, namely, Mr. Tsui Yiu Wa Alec, Mr. Yeung Pak Sing and Mr. Tam Tak Wah.*

## FINANCIAL RESULTS

The Board of Directors (the "Board") of Vertex Communications & Technology Group Limited (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 nine months ended 30 September 2005, together with the comparative figures for the corresponding period in 2004 as follows:

### Consolidated Income Statement

|  | Notes | Three months ended<br>30 September |                                 | Nine months ended<br>30 September |                                 |
|--|-------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|  |       | 2005<br>HK\$'000<br>(Unaudited)    | 2004<br>HK\$'000<br>(Unaudited) | 2005<br>HK\$'000<br>(Unaudited)   | 2004<br>HK\$'000<br>(Unaudited) |
| Turnover   | (2)   | 3,379                              | 1,920                           | 8,580                             | 4,144                           |
| Other operating income   |       | 3,154                              | -                               | 3,215                             | 13                              |
| Staff costs  |       | (2,844)                            | (3,306)                         | (9,094)                           | (9,094)                         |
| Subcontracting costs   |       | (248)                              | (330)                           | (859)                             | (1,372)                         |
| Depreciation   |       | (327)                              | (296)                           | (665)                             | (844)                           |
| Royalty and production costs                                     |       | (3,286)                            | (2,494)                         | (9,663)                           | (5,405)                         |
| Impairment loss recognized<br>in respect of deferred expenditure |       | -                                  | (4,709)                         | -                                 | (4,709)                         |
| Other operating expenses   |       | (2,448)                            | (1,874)                         | (7,398)                           | (9,805)                         |
| Loss from operations   |       | (2,620)                            | (11,089)                        | (15,884)                          | (27,072)                        |
| Finance cost   |       | (78)                               | (78)                            | (234)                             | (186)                           |
| Gain on partial disposal of a subsidiary                         |       | -                                  | -                               | 19,300                            | -                               |
| Profit/(Loss) before taxation                                    |       | (2,698)                            | (11,167)                        | 3,182                             | (27,258)                        |
| Taxation   | (3)   | -                                  | -                               | -                                 | -                               |
| Profit/(Loss) before<br>minority interests                       |       | (2,698)                            | (11,167)                        | 3,182                             | (27,258)                        |
| Minority interests   |       | 2                                  | -                               | 28                                | 408                             |
| Net profit/(loss) for the period                                 |       | (2,696)                            | (11,167)                        | 3,210                             | (26,850)                        |
| Earnings/(Loss) per share  | (4)   |                                    |                                 |                                   |                                 |
| - Basic  |       | HK(0.53) cent                      | HK(2.26) cent                   | HK0.63 cent                       | HK(5.43) cent                   |
| - Diluted  |       | HK(0.53) cent                      | HK(2.26) cent                   | HK0.60 cent                       | HK(5.43) cent                   |

**Notes:****1. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The Company was incorporated in the Cayman Islands on 16 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 quarterly 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

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 measurement basis used in the preparation of the financial statements is historical cost.

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

Certain comparative figures have been reclassified to conform current financial period's presentation.

**2. TURNOVER**

The Company is an investment holding company. The Group is engaged in print media and digital solutions as well as electricity supply businesses.

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 nine months ended 30 September 2005 (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 nine months ended 30 September 2005 (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).

### 4. EARNINGS/(LOSS) PER SHARE

#### (a) Basic

The calculation of basic earnings per share for the nine months ended 30 September 2005 is based on the unaudited consolidated profit from ordinary activities attributable to shareholders of approximately HK\$3,210,000 (2004: loss of HK\$26,850,000) and on the weighted average number of 508,165,657 shares (2004: 494,247,023 shares) deemed to be in issue throughout the periods.

#### (b) Diluted

The calculation of diluted earnings per share for the nine months ended 30 September 2005 is based on the profit attributable to shareholders of approximately HK\$3,210,000 and weighted average number of 508,165,657 ordinary shares in issue during the period plus the weighted average number of 29,180,767 ordinary shares assumed to have been issued on the deemed exercise of all share options and warrants outstanding during the period.

### 5. DIVIDEND

The Board does not resolve the payment of an interim dividend for the nine months ended 30 September 2005 (2004: Nil).

## 6. STATEMENT OF MOVEMENT TO AND FROM RESERVE

|   | Share<br>Capital<br>(unaudited)<br><i>HK\$'000</i> | Share<br>Premium<br>(unaudited)<br><i>HK\$'000</i> | Special<br>Reserve<br>(unaudited)<br><i>HK\$'000</i> | Accumulated<br>Losses<br>(unaudited)<br><i>HK\$'000</i> | Employee<br>Share-based<br>Payment<br>Reserve<br>(unaudited)<br><i>HK\$'000</i> | Total<br>(unaudited)<br><i>HK\$'000</i> |
|---|--|--|--|---|---|---|
| As at 1 January 2004                            | 4,922  | 66,683   | 1,000  | (55,882)  | -   | 16,723                                  |
| Share issue at premium                          | 32   | 357  | -  | -   | -   | 389                                     |
| Net loss for the period                         | -  | -  | -  | (26,850)  | -   | (26,850)                                |
| <b>As at 30 September 2004</b>                  | <b>4,954</b>                                       | <b>67,040</b>                                      | <b>1,000</b>   | <b>(82,732)</b>   | <b>-</b>  | <b>(9,738)</b>                          |
| As at 1 January 2005                            | 4,954  | 67,040   | 1,000  | (84,283)  | -   | (11,289)                                |
| Share issue at premium                          | 348  | 9,648  | -  | -   | -   | 9,996                                   |
| Profit for the period                           | -  | -  | -  | 3,210   | -   | 3,210                                   |
| Recognition of employee share<br>option granted | -  | -  | -  | -   | 229   | 229                                     |
| <b>At 30 September 2005</b>                     | <b>5,302</b>                                       | <b>76,688</b>                                      | <b>1,000</b>   | <b>(81,073)</b>   | <b>229</b>  | <b>2,146</b>                            |

## FINANCIAL REVIEW

For the nine months ended 30 September 2005, the Group recorded an increase in revenue of approximately HK\$4.4 million, representing a surge of approximately 107% 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 65% to 87% as compared to the same period in the previous year.

During the period under review, the investment of 16% equity interest in 天意華創峰廣告有限公司 was disposed at a cash consideration of HK\$4.5 million. As a result, an impairment loss amounting to HK\$3.1 million, which had been previously recognized, was reversed and included as other operating income.

Staff cost for the nine months under review remained at the same level as the corresponding period in the previous year at approximately HK\$9 million. The increase in staff cost in setting up of sales and editorial teams in Beijing and Shanghai during the period under review was offset by the management time cost dedicated to the electricity supply business which is expected to be reimbursed by the joint venture company.

The subcontracting costs for the nine months ended 30 September 2005 amounted to approximately HK\$0.86 million, representing approximately 10% of the turnover. For the same period in previous year, the subcontracting cost was approximately HK\$1.4 million or approximately 33% of the turnover. The decrease in subcontracting cost is in line with the decrease in turnover in digital solutions business.

For the nine months ended 30 September 2005, the royalty and production cost amounted to HK\$9.7 million. The increase in the royalty and production costs was mainly attributed to additional royalty and production cost in relation to the publication of ESPN The Magazine and the Newsweek Select in Hong Kong and the PRC during the period under review.

The other operating expenses for the nine months ended 30 September 2005 amounted to approximately HK\$7.4 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 net gain of HK\$19.3 million after netting off exchange difference arose from disposal of 200,000 shares of Coastal Power Company Limited ("Coastal Power"), representing 20% of its total share capital, to a strategic partner at a consideration of HK\$20 million.

At the end of the period under review, expenses of approximately HK\$1 million was incurred in relation to electricity supply business which is expected to be reimbursed by the joint venture company. The management will review its recoverability at the year end.

## 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 Board of the Company 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.

## HUMAN RESOURCES

As at 30 September 2005, the Group has 58 (2004: 52) employees working in Hong Kong and in the PRC. As at 30 September 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 30 September 2005, the estimated contingent liabilities not provided for in the accounts in such purpose is not material.

Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share options 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.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Prospects

Management remains positive about the potential growth of revenue generated from the titles of magazines under the Group. To reinforce the brand image, we successfully organized the Hong Kong/Shanghai CFO Forum 2005 with Hong Kong Trade Development Council on 1 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. We invited leading personalities in Hong Kong financial institutes as speakers including the Hon Frederick Ma Si-Hang, Secretary for Financial Services and the Treasury, HKSAR, Mr. Vincent Cheng, Chairman of The Hong Kong and Shanghai Banking Corporation Limited, Ms. Li Xiao Lin, Vice Chairman and General Manager of China Power International Holding Limited etc. They shared their views on how Mainland Enterprises can make use of Hong Kong as a financial hub to raise fund.

We have set up our advertising and editorial teams for ESPN the Magazine Chinese language in Beijing and Shanghai. Since it is a new title in the market, we have deployed more marketing resources to strengthen the brand images and position the magazine as the first international renowned Chinese sport magazine.

On 29 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. The Company's interest in the JV is held through a subsidiary, Coastal Power. On 12 April 2005, the Group disposed 20% equity interest of Coastal Power to one of our strategic investors.

We are in the process of recruiting the key personnel for our power business and have started the planning and development network for the electricity supply business in Hong Kong.

## SHARE OPTION SCHEME

Pursuant to a written resolution of the sole shareholder dated 22 July 2002, the Company conditionally adopted and approved 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 of the Company dated 9 October 2002.

### Pre-IPO Share Option Scheme

As at 30 September 2005, the share options to subscribe for an aggregate of 1,352,000 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. During the period under review, 18,285,000 share options were exercised during the period. A portion of each grantee's right to exercise the options that has been conditionally granted under the Pre-IPO Share Option Scheme shall be deemed to have vested on 17 June 2002 (such portion is fixed on the basis of the grantee's employment period and/or contribution to the Group and as set in the table below) and the rest of the right shall continue to vest over a period of not more than 4 years from 17 June 2002 (the "Listing date") on a monthly basis each time from 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 9 October 2002, being the date of publication of the Prospectus.

The details of the Pre-IPO Option Scheme as at 30 September 2005 are set out as follows:

| Category of participants | Exercise price per share<br>HK\$ | Number of share options |                             |                          |                                     |
|--------------------------|----------------------------------|-------------------------|-----------------------------|--------------------------|-------------------------------------|
|                          |                                  | As at 1 January 2005    | Exercised during the period | Lapsed during the period | Outstanding as at 30 September 2005 |
| Directors                | 0.12                             | 16,334,000              | 16,330,000                  | -                        | 4,000                               |
|                          | 0.21                             | 667,000                 | 665,000                     | -                        | 2,000                               |
| Advisors and consultants | 0.45                             | 1,334,000               | -                           | -                        | 1,334,000                           |
| Employees                | 0.12                             | 434,000                 | 430,000                     | -                        | 4,000                               |
|                          | 0.21                             | 868,000                 | 860,000                     | -                        | 8,000                               |
| Total                    |                                  | <u>19,637,000</u>       | <u>18,285,000</u>           | <u>-</u>                 | <u>1,352,000</u>                    |

## Post-IPO Share Option Scheme

As at 30 September 2005, the share options to subscribe for an aggregate of 7,500,000 shares of the Company granted pursuant to the Post-IPO Share Option Scheme were outstanding. During the period under review, 6,000,000 share options have been granted and 500,000 share options have been exercised.

The details of the Post-IPO Option Scheme as at 30 September 2005 are set out as follows:

| Category of participant | Exercise price per share<br>HK\$ | Date of grant    | Number of share options |                               |                                  |                          |                                     |
|-------------------------|----------------------------------|------------------|-------------------------|-------------------------------|----------------------------------|--------------------------|-------------------------------------|
|                         |                                  |                  | As at 1 January 2005    | Granted during the period (i) | Exercised during the period (ii) | Lapsed during the period | Outstanding as at 30 September 2005 |
| Employee                | 0.152                            | 11 October 2004  | 2,000,000               | -                             | 500,000                          | -                        | 1,500,000                           |
|                         | 0.590                            | 16 August 2005   | -                       | 1,000,000                     | -                                | -                        | 1,000,000                           |
|                         | 0.542                            | 6 September 2005 | -                       | 5,000,000                     | -                                | -                        | 5,000,000                           |
|                         |                                  |                  | <u>2,000,000</u>        | <u>6,000,000</u>              | <u>500,000</u>                   | <u>-</u>                 | <u>7,500,000</u>                    |

Notes:

- (i) The closing prices of the shares of the Company immediately before 16 August 2005 and 6 September 2005, being the dates of grant of the share options, were HK\$0.56 and 0.54 respectively.
- (ii) The closing price of the shares of the Company immediately before the date on which the share option exercised was HK\$0.7.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2005, the interests or short positions of the directors and chief executive of the Company and their respective associates in the shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were notified to the Company and The Stock Exchange of Hong Kong Limited (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 Rule 5.46 of the Growth Enterprise Market (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

### 1. Long Positions in the shares of the Company

| Directors            | Number of shares of the Company |                            |             | Percentage held |
|----------------------|---------------------------------|----------------------------|-------------|-----------------|
|                      | Personal Interest               | Corporate Interest         | Total       |                 |
| Poon Kwok Lim Steven | 8,330,000 <sup>(1)</sup>        | 267,421,528 <sup>(2)</sup> | 275,571,528 | 52.00%          |
| Poon Shu Yan Joseph  | 8,000,000 <sup>(3)</sup>        | –                          | 8,000,000   | 1.51%           |
| Mok Hay Hoi          | 430,000                         | –                          | 430,000     | 0.08%           |
| Tam Tak Wah          | 120,000                         | –                          | 120,000     | 0.02%           |

*Notes:*

1. Mr. Poon Kwok Lim Steven was beneficially owned 8,330,000 shares of the Company representing approximately 1.57% of the issued share capital of the Company. By virtue of the SFO, Mrs. Poon Wong Wai Ping (“Mrs. Poon”), the spouse of Mr. Poon Kwok Lim Steven, was deemed to be interested in all the shares in which Mr. Poon Kwok Lim Steven was interested.
2. Mr. Poon Kwok Lim Steven owned 267,421,528 shares of the Company, representing approximately 50.43% of the issued share capital of the Company, through (i) Amazing Nova Corporation owned 167,886,666 shares of the Company representing approximately 31.66% of the issued share capital of the Company; (ii) Matrix Worldwide Corporation owned 61,606,666 shares of the Company representing approximately 11.62% of the issued share capital of the Company; (iii) Forever Triumph Limited owned 13,208,196 shares of the Company representing approximately 2.49% of the issued share capital of the Company; and (iv) Bright World Enterprise Limited owned 24,720,000 shares of the Company representing approximately 4.66% of the issued share capital of the Company. Mr. Poon Kwok Lim was entitled to exercise or control the exercise of one-third or more of the voting rights of Amazing Nova Corporation, Matrix World Corporation, Forever Triumph Limited and Bright World Enterprise Limited so he was deemed to be interested in all shares held by the aforesaid companies by virtue of the SFO. By virtue of the SFO, Mrs. Poon was deemed to be interested in all the shares in which Mr. Poon Kwok Lim Steven was interested. These shares were the same as those shares disclosed in the section “Interests and Short Positions of Shareholders” below.
3. Mr. Poon Shu Yan Joseph was beneficially owned 8,000,000 shares of the Company representing approximately 1.51% of the issued share capital of the Company. By virtue of the SFO, Mrs. Poon Loo Margaret Teresa, the spouse of Mr. Poon Shu Yan Joseph, was deemed to be interested in all the shares in which Mr. Poon Shu Yan Joseph was interested.

## 2. Rights to acquire shares of the Company

### i. Pre-IPO Share Option Scheme

| Name of Directors    | Date of grant | Exercise price per share<br>HK\$ | Exercisable period                    | Number of share options |                             |                         |
|----------------------|---------------|----------------------------------|---------------------------------------|-------------------------|-----------------------------|-------------------------|
|                      |               |                                  |                                       | As at 1 January 2005    | Exercised during the period | As at 30 September 2005 |
| Poon Kwok Lim Steven | 24 July 2002  | 0.12                             | 17 October 2003<br>to<br>23 July 2012 | 8,334,000               | 8,330,000                   | 4,000                   |
| Poon Shu Yan Joseph  | 24 July 2002  | 0.12                             | 17 October 2003<br>to<br>23 July 2012 | 8,000,000               | 8,000,000                   | -                       |
| Mok Hay Hoi          | 24 July 2002  | 0.21                             | 17 October 2003<br>to<br>23 July 2012 | 434,000                 | 430,000                     | 4,000                   |

### ii. Post-IPO Share Option Scheme

| Name of Directors | Date of grant  | Exercise price per share<br>HK\$ | Exercisable period                      | Number of share options |                           |                             |                         |
|-------------------|----------------|----------------------------------|---|-------------------------|---------------------------|-----------------------------|-------------------------|
|                   |                |                                  |   | As at 1 January 2005    | Granted during the period | Exercised during the period | As at 30 September 2005 |
| Mok Hay Hoi       | 16 August 2005 | 0.59                             | 16 August 2005<br>to<br>16 October 2011 | -                       | 1,000,000                 | -                           | 1,000,000               |

Save as disclosed above, none of the directors, chief executive or their associates had, as at 30 September 2005, any interests or short positions in any 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 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 Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed above, at no time during the period was the Company, its subsidiaries or holding company a party to any arrangement to enable the directors, their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## INTERESTS OR SHORT POSITIONS OF SHAREHOLDERS

As at 30 September 2005, the persons or corporations (not being a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

### 1. Long Positions in the shares of the Company

| Name of shareholders             | Note    | Capacity                              | No. of shares<br>of the Company<br>held | Approximate<br>percentage of<br>shareholding |
|----------------------------------|---------|---------------------------------------|---|--|
| Poon Kwok Lim Steven             | 1       | Beneficial owner                      | 8,330,000                               | 1.57%  |
|                                  | 2,3,4,5 | Interest of controlled<br>corporation | 267,421,528                             | 50.43%                                       |
| Poon Wong Wai Ping               | 1       | Interest of spouse                    | 8,330,000                               | 1.57%  |
|                                  | 2,3,4,5 | Interest of controlled<br>corporation | 267,421,5285                            | 50.43%                                       |
| Amazing Nova Corporation         | 2       | Beneficial owner                      | 167,886,666                             | 31.66%                                       |
| Matrix Worldwide Corporation     | 3       | Beneficial owner                      | 61,606,666                              | 11.62%                                       |
| Forever Triumph Limited          | 4       | Beneficial owner                      | 13,208,196                              | 2.49%  |
| Bright World Enterprise Limited  | 5       | Beneficial owner                      | 24,720,000                              | 4.66%  |
| Deutsche Bank Aktiengesellschaft |         | Beneficial owner                      | 49,785,000                              | 9.39%  |

*Notes:*

1. Mr. Poon Kwok Lim Steven was beneficially owned 8,330,000 shares of the Company representing approximately 1.57% of the issued share capital of the Company. By virtue of the SFO, Mrs. Poon was deemed to be interested in all the shares in which Mr. Poon Kwok Lim Steven was interested.



2. Amazing Nova Corporation is beneficially owned as to 40% by Mr. Poon Kwok Lim Steven and as to 40% by Mrs. Poon. By virtue of the SFO, Mr. Poon Kwok Lim Steven and Mrs. Poon are deemed to be interested in all the shares held by Amazing Nova Corporation since both of them are entitled to exercise more than one-third of the voting power in Amazing Nova Corporation.
3. Matrix Worldwide Corporation is wholly and beneficially owned by Mr. Poon Kwok Lim Steven. By virtue of the SFO, Mr. Poon Kwok Lim Steven is deemed to be interested in all the shares held by Matrix Worldwide Corporation since he is entitled to exercise more than one-third of the voting power in Matrix Worldwide Corporation. Mrs. Poon is deemed to be interested in all shares in which Mr. Poon is interested.
4. Forever Triumph Limited is wholly and beneficially owned by Mr. Poon Kwok Lim Steven. By virtue of the SFO, Mr. Poon Kwok Lim Steven is deemed to be interested in all the shares held by Forever Triumph Limited since he is entitled to exercise more than one-third of the voting power in Forever Triumph Limited. Mrs. Poon is deemed to be interested in all shares held by Forever Triumph Corporation.
5. Bright World Enterprise Limited is beneficially owned as to 80% by Mr. Poon Kwok Lim Steven and as to 20% by Mrs. Poon. By virtue of the SFO, Mr. Poon Kwok Lim Steven is deemed to be interested in all the shares held by Bright World Enterprise Limited since he is entitled to exercise more than one-third of the voting power in Bright World Enterprise Limited. Mrs. Poon is deemed to be interested in all shares held by Bright World Enterprise Limited.

## 2. Long positions of the underlying shares of the Company

### Warrants

| Warrantholder               | Number of warrants          |                             |                         | Number of shares of the Company issued during the period | Percentage held |
|-----------------------------|-----------------------------|-----------------------------|-------------------------|--|-----------------|
|                             | Granted on 27 February 2004 | Exercised during the period | As at 30 September 2005 |  |                 |
| Lim Asia Arbitrage Fund Inc | 41,010,000                  | 16,010,000                  | 25,000,000              | 16,010,000   | 3%<br>(Note)    |

*Note:*

For the avoidance of doubt, interests in underlying shares have not been taken into account when calculating the percentages as set out above since these underlying shares have not been issued as at 30 September 2005.

Save as disclosed above, as at 30 September 2005, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

## **AUDIT COMMITTEE**

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee") on 22 July 2002 with written terms of reference, which deal clearly with its authorities 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 is the chairman of the Audit Committee.

The Group's unaudited results for the nine months ended 30 September 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.

## **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 nine months ended 30 September 2005.

## **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. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31 December 2005.

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

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.

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

During the nine months ended 30 September 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Hong Kong Special Administrative Region of the People's Republic of China, 8 November 2005.

By Order of the Board  
**Vertex Communications & Technology Group Limited**  
**Poon Kwok Lim Steven**  
*Chairman*