



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)

(Stock Code : 8228)

1st Quarterly Report 2006

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.

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

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 hereof, 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") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2006, together with the comparative figures for the corresponding period in 2005 as follows:

Consolidated Income Statement

	Notes	Three months ended 31 March 2006	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	(2)	2,110	1,682
Other operating income		27	31
Staff costs		(3,553)	(2,959)
Subcontracting costs		(179)	(129)
Depreciation		(231)	(210)
Royalty and production costs		(3,686)	(2,659)
Other operating expenses		(3,552)	(2,083)
Finance cost		(224)	(78)
Loss before taxation		(9,288)	(6,405)
Taxation	(3)	9	–
Loss for the period		(9,279)	(6,405)
Attributable to:			
Equity holders of the Company		(9,111)	(6,405)
Minority Interest		(168)	–
		(9,279)	(6,405)
Loss per share			
– Basic and diluted	(4)	HK\$(1.8) cents	HK\$(1.3) cents

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 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 (the "GEM Listing Rules") 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 unaudited consolidated results for the three months ended 31 March 2006 have not been audited by the Company's auditors, but have been reviewed by the audit committee of the Company.

The accounting policies and basis of preparation adopted for the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2005.

2. TURNOVER

The Company is an investment holding company. The Group is engaged in the provision of network infrastructure services, digital solution services and publication of print media.

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

3. TAXATION

Hong Kong Profits Tax has not been provided for the three months ended 31 March 2006 (2005: Nil) as the Group did not generate any assessable profits in Hong Kong during these periods. The tax credit incurred during this period was a result of written back of over provision of taxation in prior years.

Pursuant to the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises, the Company's subsidiary in the PRC is exempted from income tax for its first two profitable years of operations and is entitled to a 50% relief on the income tax of the PRC for the following three years. No provision for the PRC income tax has been provided as the Company's subsidiary in the PRC has no assessable profit in the PRC for the three months ended 31 March 2006 (2005: 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 (2005: Nil).

4. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2006 was based on the unaudited net loss for the period of approximately HK\$9,279,000 (2005: loss of HK\$6,405,000) and on the weighted average number of 525,606,588 shares (2005: 495,420,232 shares) deemed to be in issue throughout the periods.

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option schemes and warrants since their exercises would result in a reduction in net loss per share.

5. DIVIDEND

The Board does not resolve the payment of an interim dividend for the three months ended 31 March 2006 (2005: Nil).

6. STATEMENT OF MOVEMENT TO AND FROM RESERVES

	Share Capital	Share Premium	Special Reserve	Warrant Reserve	Translation Reserve	Employee Share-based Payment Reserve	Accumu- lated Losses	Total
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
As at 1 January 2005	4,954	67,040	1,000	-	-	-	(84,283)	(11,289)
Share issue at premium	110	5,109	-	-	-	-	-	5,219
Net loss for the period	-	-	-	-	-	-	(6,405)	(6,405)
At 31 March 2005	5,064	72,149	1,000	-	-	-	(90,688)	(12,475)
As at 1 January 2006	5,303	77,828	1,000	1,750	(71)	200	(102,470)	(16,460)
Share issue at premium	3	35	-	-	-	-	-	38
Loss for the period	-	-	-	-	-	-	(9,111)	(9,111)
Recognition of employee share option granted	-	-	-	-	-	58	-	58
At 31 March 2006	5,306	77,863	1,000	1,750	(71)	258	(111,581)	(25,475)

FINANCIAL REVIEW

For the three months ended 31 March 2006, the Group recorded an increase in revenue of approximately HK\$0.4 million, representing a surge of approximately 25% over the corresponding period in 2005. The increase was attributed to increasing advertising revenue as a result of advertisement placements on ESPN Chinese Edition.

Staff cost for the period under review increased as compared to the corresponding period in the previous year at approximately HK\$0.6 million. The increase in staff cost was mainly due to additional headcounts of sales and editorial teams in Beijing and Shanghai during the period under review.

For the three months ended 31 March 2006, the royalty and production cost amounted to HK\$3.7 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 in Hong Kong and the PRC during the period under review.

The other operating expenses for the period ended 31 March 2006 amounted to approximately HK\$3.6 million. Much more other operating expenses incurred in the period under review was mainly attributable to compliance, legal and professional expenses in relation to issuance of bonds in an aggregate amount of HK\$31 million at end of March 2006.

On 24 March 2006, the Company, Coastal Power Company Limited (a subsidiary of the Company), Mr. Ali Khalifa Athbi Al-Sabah and LIM Asia Arbitrage Fund Inc entered into a Subscription and Investment Agreement for Convertible Bonds of US\$4 million at 6% coupon interest. The proceeds from the subscription will be applied in line with the business development of Coastal Power Company Limited.

HUMAN RESOURCES AND REMUNERATION POLICY

The directors of the board (the “Directors”) believe that the quality of its employees is the most important factor in sustaining the Group’s growth and improving its profitability. The Group’s remuneration package is structured with reference to the individual performance, working experience and prevailing salary levels in the market. In addition to basic salaries and mandatory provident fund, staff benefits include medical coverage scheme and share option schemes.

The Group has not experienced any significant problems with its employees or disruption to its operation due to labour disputes nor has it experienced any difficulties in the recruitment and retirement of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward, we will continue to strengthen the prominent brand name of the titles of the magazines under the Group by organizing more notable events similar to CFO Forum organized last year in Shanghai with Hong Kong Trade Development Council.

The advertising and editorials teams for ESPN the Magazine Chinese language in Beijing and Shanghai have been in full gear, more marketing resources will be deployed to position the magazine as the first international renowned Chinese sport magazine in China.

A further Shareholders’ Agreement in relation to the joint venture company (“JV”), China Hong Kong Power Development Company Limited, was formally entered on 8 February 2006 with China Power International Holding Limited and China Southern Power Grid Co., Ltd. The principal activities of the JV are to engage in power generation and electricity supply business in Hong Kong. According to the Agreement, the Company invested HK\$3 million for 15% equity interest in the JV. Mr. Poon Kwok Lim Steven, the chairman of the Company, was appointed as the general manager of the JV and Mr. Poon Shu Yan Joseph, the chief executive officer of the Company, was appointed as a director of the board of the JV.

On 7 April 2006, the Company successfully placed 83,590,000 of new shares of the Company at HK\$0.485 per share to independent investors. The net proceeds of the placement amounting to HK\$39.4 million will be applied for making investment in the energy field, communication business and working capital of the Group.

SHARE OPTION SCHEMES

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 the 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 (the "Prospectus").

Pre-IPO Share Option Scheme

As at 31 March 2006, the share options to subscribe for an aggregate of 1,350,000 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. 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.

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The details of the Pre-IPO Option Scheme as at 31 March 2006 are set out as follows:

Category of participants	Exercise price per share HK\$	Number of share options			
		As at 1 January 2006	Exercised during the period	Lapsed during the period	Outstanding as at 31 March 2006
Directors	0.12	4,000	–	–	4,000
Advisors and consultants	0.45	1,334,000	–	–	1,334,000
Employees	0.12	4,000	–	–	4,000
	0.21	8,000	–	–	8,000
Total		1,350,000	–	–	1,350,000

Post-IPO Share Option Scheme

As at 31 March 2006, the share options to subscribe for an aggregate of 7,125,000 shares of the Company granted pursuant to the Post-IPO Share Option Scheme were outstanding. The details of the Post-IPO Share Option Scheme as at 31 March 2006 are set out as follows:

Category of participant	Exercise price per share (HK\$)	Date of grant	Number of share options				Outstanding as at 31 March 2006
			As at 1 January 2006	Granted during the period	Exercised during the period ⁽ⁱ⁾	Lapsed during the period	
Employee	0.152	11 October 2004	1,375,000	-	250,000	-	1,125,000
	0.59	16 August 2005	1,000,000	-	-	-	1,000,000
	0.542	6 September 2005	5,000,000	-	-	-	5,000,000
			7,375,000	-	250,000	-	7,125,000

Notes:

- (i) The closing price of the shares of the Company immediately before the date on which the share option exercised was HK\$0.34 and HK\$0.52.

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

As at 31 March 2006, 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 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 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 ⁽¹⁾	267,421,528 ⁽²⁾	275,571,528	51.97%
Poon Shu Yan Joseph	8,000,000 ⁽³⁾	–	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 50.40% of the issued share capital of the Company, through (i) Amazing Nova Corporation owned 167,886,666 shares of the Company representing approximately 31.64% of the issued share capital of the Company; (ii) Matrix Worldwide Corporation owned 61,606,666 shares of the Company representing approximately 11.61% 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. These shares were the same as those shares disclosed in the section “Interests and Short Positions of Shareholders” below.

Mr. Poon Kwok Lim Steven 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 is 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.

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 (HK\$)	Exercisable period (Note)	Number of share options		
				As at 1 January 2006	Exercised during the period	As at 31 March 2006
Poon Kwok Lim Steven	24 July 2002	0.12	17 October 2003 to 23 July 2012	4,000	-	4,000
Mok Hay Hai	24 July 2002	0.21	17 October 2003 to 23 July 2012	4,000	-	4,000

ii. Post-IPO Share Option Scheme

Name of Directors	Date of grant	Exercise price per share (HK\$)	Exercisable period (Note)	Number of share options			
				Granted during the period	As at 1 January 2006	Exercised during the period	As at 31 March 2006
Mok Hay Hoi	16 August 2005	0.59	16 August 2005 to 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 31 March 2006, 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 31 March 2006, 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 of the Company held	Approximate percentage of shareholding
Poon Kwok Lim Steven	1	Beneficial owner	8,330,000	1.57%
	2,3,4,5	Interest of controlled corporation	267,421,528	50.40%
Poon Wong Wai Ping	1	Interest of spouse	8,330,000	1.57%
	2,3,4,5	Interest of controlled corporation	267,421,528	50.40%
Amazing Nova Corporation	2	Beneficial owner	167,886,666	31.64%
Matrix Worldwide Corporation	3	Beneficial owner	61,606,666	11.61%

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Name of shareholders	Note	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
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	37,235,000	7.02%

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 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, as to 40% by Mrs. Poon. By virtue of the SFO, Mr. Poon Kowk 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 and Mrs. Poon are deemed to be interested in all shares held by Matrix Worldwide Corporation.
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 and Mrs. Poon are 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 and Mrs. Poon are deemed to be interested in all shares held by Bright World Enterprise Limited.

2. Long positions of the underlying shares of the Company

Warrant

Warrantholder	Number of warrants			Number of shares of the Company issued since the date of grant	Percentage held
	Granted on 27 February 2004	Exercised since the date of grant	As at 31 March 2006		
Lim Asia Arbitrage Fund Inc	41,010,000	16,010,000	25,000,000	16,010,000	3% ^(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 31 March 2006.

Save as disclosed above, as at 31 March 2006, 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.

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 the directors of the Company, 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 three months ended 31 March 2006.

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 has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2005 annual report of the Company.

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 three months ended 31 March 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Hong Kong, 11 May 2006

By Order of the Board

Vertex Communications & Technology Group Limited

Poon Kwok Lim Steven

Chairman