



Vertex

Vertex Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8228)

Interim Report 2007

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.

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The report, for which the directors of Vertex 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.

FINANCIAL RESULTS

The board of directors (the "Board") of Vertex Group Limited (the "Company") announces 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 2007, together with the comparative figures for the corresponding period in 2006 as follows:

Consolidated Income Statement

	Notes	Three months ended		Six months ended	
		2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Turnover	(2)	5,419	3,636	10,773	5,746
Other operating income		407	486	826	513
Staff costs		(4,032)	(4,284)	(7,969)	(7,837)
Subcontracting costs		(84)	(274)	(414)	(453)
Depreciation		(131)	(229)	(259)	(460)
Royalty and production costs		(2,482)	(3,726)	(4,817)	(7,412)
Other operating expenses		(2,435)	(1,822)	(4,389)	(5,374)
Finance cost		(697)	(791)	(1,392)	(1,015)
Loss before taxation	(4)	(4,035)	(7,004)	(7,641)	(16,292)
Taxation	(5)	-	-	-	9
Loss for the period		(4,035)	(7,004)	(7,641)	(16,283)
Attributable to:					
Equity holders of the Company		(4,035)	(7,004)	(7,641)	(16,115)
Minority Interest		-	-	-	(168)
		(4,035)	(7,004)	(7,641)	(16,283)
Loss per share					
– Basic and Diluted	(6)	HK\$(0.66) cents	HK\$(1.28) cents	HK\$(1.24) cents	HK\$(2.95) cents

Consolidated Balance Sheet

	Notes	30th June 2007 HK\$'000 (Unaudited)	31st December 2006 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	1,487	1,695
Investment in securities		3,000	3,000
Deposit		354	354
		4,841	5,049
Current assets			
Trade receivables	9	5,705	4,087
Prepayments, deposits and other receivables		2,680	3,292
Bank balances and cash		34,741	43,090
		43,126	50,469
Current liabilities			
Trade payables	10	1,906	2,376
Other payables and accrued expenses		4,529	4,444
Amounts due to related companies		5,854	5,829
Taxation		8	8
		12,297	12,657
Net current assets		30,829	37,812
		35,670	42,861
Capital and reserves			
Share capital		6,147	6,144
Reserves		(15,635)	(8,140)
Equity attributable to equity holders of the parent		(9,488)	(1,996)
Minority interests		-	-
Total equity		(9,488)	(1,996)
Non-current liabilities			
Convertible bonds	11	30,554	30,554
Bonds, secured	12	14,604	14,303
		45,158	44,857
		35,670	42,861

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2007

	Six months ended 30th June	
	2007 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)
Net cash outflow from operating activities	(8,211)	(18,371)
Net cash inflow/(outflow) in investing activities	780	(2,697)
Net cash outflow/(inflow) from financing activities	(918)	70,060
(Decrease)/Increase in cash and cash equivalents	(8,349)	48,992
Cash and cash equivalents at beginning of period	43,090	9,506
Cash and cash equivalents at end of period	34,741	58,498

Condensed Consolidated Statement of Changes in Equity*For the six months ended 30th June 2007*

	Attributable to equity holders of the parent									
	Share capital	Share premium	Special reserve	Capital reserve	Trans-lation reserve	Share options reserve	Accumu-lated losses	Total	Minority interest	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January, 2006										
as restated	5,303	77,828	1,000	1,750	(71)	200	(102,470)	(16,460)	(168)	(16,292)
Share issued at premium	836	39,705	-	-	-	-	-	40,541	-	40,541
Share issue expenses	-	(1,148)	-	-	-	-	-	(1,148)	-	(1,148)
Exercise of share options	3	34	-	-	-	-	-	37	-	37
Recognition of share based payment	-	-	-	-	-	188	-	188	-	188
Recognition of equity component of convertible bonds (note 11)	-	-	-	2,551	-	-	-	2,551	-	2,551
Net loss for the period	-	-	-	-	-	-	(16,115)	(16,115)	(168)	(16,283)
At 30th June 2006	6,142	116,419	1,000	4,301	(71)	388	(118,585)	9,594	-	9,594
At 1st January 2007	6,144	116,455	1,000	1,750	55	2,236	(129,636)	(1,996)	-	(1,996)
Shares issued at premium	3	33	-	-	-	-	-	36	-	36
Currency translation	-	-	-	-	99	-	-	99	-	99
Net loss for the period	-	-	-	-	-	-	(7,641)	(7,641)	-	(7,641)
Recognition of share based payment	-	-	-	-	-	14	-	14	-	14
At 30th June 2007	6,147	116,488	1,000	1,750	154	2,250	(137,277)	(9,488)	-	(9,488)

Notes:

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 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.

The unaudited consolidated results for the six months ended 30th June 2007 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 31st December 2006.

2. TURNOVER

The Company is principally engaged in investment holding and provision of energy consultancy services. The principal activities of the Group include the provision of network infrastructure services, digital solution services, consultancy services as well as publication of print media.

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

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into four operating segments, namely network infrastructure services, digital solution services, publication of print media and energy consultancy services. These segments are the basis on which the Group reports its primary segment information. The principal activities of these segments are as follows:

Network infrastructure services	–	provision of network infrastructure services
Digital solution services	–	provision of information technology solutions including web solutions and system integration
Publication of print media	–	production and procurement of media contents
Energy consultancy services	–	provision of energy consultancy services

Segment information about these businesses is presented below.

Income statement for the six months ended 30th June 2007

	Network infrastructure services	Digital solution services	Print media	Energy consultancy services	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	398	71	7,704	2,599	10,773
RESULTS					
Segment results	(230)	(108)	(1,575)	582	(1,332)
Other operating income					826
Unallocated corporate expenses					(5,743)
Finance costs					(1,392)
Loss before taxation					(7,641)
Taxation					
Loss for the period					(7,641)

Balance sheet as at 30th June 2007

	Network infrastructure services	Digital solution services	Print media	Energy Consultancy services	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
ASSETS					
Segment assets	586	128	11,510	–	12,224
Unallocated corporate assets					35,743
Consolidated total assets					47,967
LIABILITIES					
Segment liabilities	(1,043)	(826)	(4,456)	–	(6,326)
Unallocated corporate liabilities					(51,129)
Consolidated total liabilities					(57,455)

Other information for the six months 30th June 2007

	Network infrastructure services	Digital solution services	Print media	Energy consultancy Services	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to property, plant and equipment	–	–	17	–	28	45
Depreciation	–	–	62	–	197	259

Income statement for the six months ended 30th June 2006

	Network infrastructure services	Digital solution services	Print media	Energy consultancy services	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	333	–	4,517	896	5,746
RESULTS					
Segment results	(136)	(327)	(8,378)	242	(8,599)
Other operating income					513
Unallocated corporate expenses					(7,191)
Finance costs					(1,015)
Loss before taxation					(16,292)
Taxation					9
Loss for the period					(16,283)

Balance sheet as at 30th June 2006

	Network infrastructure services	Digital solution services	Print media	Energy consultancy services	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS					
Segment assets	94	431	8,158	–	8,683
Unallocated corporate assets					64,036
Consolidated total assets					72,719
LIABILITIES					
Segment liabilities	(8)	(142)	(6,647)	–	(6,797)
Unallocated corporate liabilities					(56,328)
Consolidated total liabilities					(63,125)

Other information for the six months ended 30th June 2006

	Network infrastructure services	Digital solution services	Print media	Energy consultancy services	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to property, plant and equipment	–	–	109	–	14	123
Depreciation	–	–	56	–	404	460

Geographical segments

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

4. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	Three months ended		Six months ended	
	30th June 2007		30th June 2007	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Operation lease rentals in respect of land and building	483	497	964	996
Staff costs, including directors' remuneration Retirement benefits scheme contributions	100	172	160	338
Salaries and allowances	3,932	4,112	7,809	7,499
	4,032	4,284	7,969	7,837
Interest income on bank deposits	(407)	(27)	(826)	(426)

5. TAXATION

Hong Kong Profits Tax has not been provided for the six months ended 30th June 2007 (2006: Nil) as the Group did not generate any assessable profits in Hong Kong during these periods. The tax credit incurred during previous 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 six months ended 30th June 2007 (2006: 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 (2006: Nil).

6. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30th June 2007 was based on the unaudited net loss for the period of approximately HK\$7,641,000 (2006: loss of HK\$16,115,000) and on the weighted average number of 614,486,739 shares (2006: 546,369,930 shares) deemed to be in issue throughout the periods.

The computation of diluted loss per share for the three months and six months ended 30th June 2007 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.

7. DIVIDEND

The Board does not resolve the payment of an interim dividend for the six months ended 30th June 2007 (2006: Nil).

8. FIXED ASSETS

The movements of fixed assets of the Group were:

	30th June 2007 HK\$'000 (Unaudited)	31st December 2006 HK\$'000 (Audited)
Net book value, beginning of period/year	1,695	2,467
Additions	45	194
Disposals	–	(53)
Depreciation	(259)	(915)
Exchange realignment	6	2
	1,487	1,695

9. TRADE RECEIVABLES

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

	30th June 2007 HK\$'000 (Unaudited)	31st December 2006 HK\$'000 (Audited)
0 to 60 days	2,416	1,409
61 to 90 days	1,034	728
91 to 180 days	778	1,135
Over 180 days	1,477	815
	5,705	4,087

10. TRADE PAYABLES

The aged analysis of trade payables is stated as follows:

	30th June 2007 HK\$'000 (Unaudited)	31st December 2006 HK\$'000 (Audited)
0 to 60 days	1,597	1,721
61 to 90 days	195	335
91 to 180 days	18	21
Over 180 days	96	299
	1,906	2,376

11. CONVERTIBLE BONDS

In March 2006, Coastal Power Company Limited ("CPCL"), a subsidiary of the Company, issued bonds in the principal amount of US\$4,000,000 (equivalent to HK\$31,199,000) to LIM Asia Arbitrage Fund Inc. ("LIM Fund") with a maturity date due on 31 March 2011 (the "Convertible Bonds"). The Convertible Bonds will, at the option of LIM Fund, be convertible on or after 27 March 2006 up to and including 31 March 2011 into ordinary shares of CPCL at an initial conversion price of US\$36 per share subject to adjustment. There are adjustments to the conversion price of the Convertible Bonds in the event of bonus issue or free distribution of the shares of CPCL, subdivision, consolidations, capital distribution, rights issue and issues of shares at less than the conversion price by CPCL. The interest rate of the Convertible Bonds is 6% per annum payable quarterly in advance. The Convertible Bonds that are not converted into ordinary shares will be redeemed at 133.822% of its principal amount on 31 March 2011. Details of the terms of the Convertible Bonds are set out in the Company's circular dated 11 April 2006.

12. BONDS, SECURED

On 27 February 2004, the Company issued bonds in an aggregate amount of US\$2,000,000 (the "Bonds") to LIM Asia Arbitrage Fund Inc. ("LIM Fund"), together with warrants which entitled the Bondholder to subscribe for the ordinary shares of the Company.

The Company has the right to repay early part or the entire amount and the accrued interest of the Bonds at any time prior to the maturity date. The Directors had assessed the fair value of the early redemption right and considered the fair value is insignificant.

The Bonds, which are transferable, bear a coupon of 2 per cent, per annum which will be payable biannually on the last business day in June and December of each year and will mature on 27 February 2009. The Company may, at any time by giving 30 days prior notice to the bondholders, redeem the Bonds prior to the maturity date. The bondholders have no right to request for early repayment.

The Bonds are secured by a charge of 10,000 ordinary shares in Vertex Media Ltd. 160,000 ordinary shares in Vertex (Gulf) Enterprises Holdings Limited and 2 ordinary shares in Vertex TRC Publishing Company Limited, being the Company's entire interests in these companies, in favour of LIM Fund.

The warrants entitled the Bondholder to subscribe for 41,010,000 ordinary shares of HK\$0.01 each of the Company at a subscription price of HK\$0.474 each at any time between 27 February 2004 to 27 February 2009, both dates inclusive.

The net proceeds received from the issue of Bonds attaching the warrants therefore contain a liability element and an equity element which are required to be separately accounted for in accordance with HKAS 32. An effective rate of 6.4% p.a. is used to determine the fair value of the liability element at initial recognition.

	30th June 2007 HK\$'000	31st December 2006 HK\$'000
Liability component at beginning of period/year	14,303	13,727
Interest charged	457	886
Interest paid	(156)	(310)
Liability component at end of the period/year	14,604	14,303

During the period, no warrants (2006: 16,010,000 warrants) were exercised. At the balance sheet date, the Company had outstanding 25,000,000 (2006: 25,000,000) warrants.

FINANCIAL REVIEW

For the six months ended 30th June 2007, the Group recorded an increase in revenue of approximately HK\$5 million, representing a surge of approximately 87% over the corresponding period in 2006. The increase was mainly attributed to management consultation services provided to energy related business and advertising income from print media business.

Staff cost for the period under review increased slightly as compared to the corresponding period in the previous year. The effect of additional headcounts for providing management consultation services during the period under review was offset by downsizing of sales and marketing staff in Beijing and Shanghai.

For the six months ended 30th June 2007, the royalty and production cost amounted to HK\$4.8 million. The decrease in the royalty and production costs was mainly attributed to shifting of focus on publication of Newsweek Select during the period under review.

The other operating expenses for the period ended 30 June 2007 amounted to approximately HK\$4.4 million. More other operating expenses incurred in the previous 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.

HUMAN RESOURCES & 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

Management will focus on increasing greater recognition by local and international brand clients in the PRC by devoting more resources on developing sophisticated editorial, premium circulation channel and outstanding marketing strategies. Monthly circulation will be increased from 100,000 copies per month to 150,000 copies per month at the second half of 2007 in order to stay competitive in the high-end media market. However, advertising market in the PRC remains very competitive especially more and more international magazines have launched their Chinese language editions and substantial advertising budget from international clients has been allocated to online media. We are cautious about the growth of advertising revenue at the second half of 2007.

The Group has invested a considerable amount of resources in developing energy-related business in the last 12 months, including investment in China Hong Kong Power, power system consultancy, and engineering and management of power plants overseas. Progress has been made in these efforts and we are well-positioned in this area of business. We believe that this side of business will see significant growth in the future.

SHARE OPTION SCHEMES

Pursuant to a written resolution of the sole shareholder of the Company 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 sections 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 30 June 2007, 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 is 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 options and, subject to that no options 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 options. No further options will be offered or granted under the Pre-IPO Share Option Scheme as the right to do so ends on 9 October 2002, being the date of publication of the Prospectus.

The details of the Pre-IPO Share Option Scheme as at 30 June 2007 are set out as follows:

Category of participants	Exercise price per share (HK\$)	Number of share options			Outstanding as at 30 June 2007
		As at 1 January 2007	Exercised during the period	Lapsed during the period	
Directors	0.12	4,000	–	–	4,000
	0.21	4,000	–	–	4,000
Advisors and consultants	0.45	1,334,000	–	–	1,334,000
Employees	0.12	4,000	–	–	4,000
	0.21	4,000	–	–	4,000
Total		1,350,000	–	–	1,350,000

Post-IPO Share Option Scheme

As at 30 June 2007, the share options to subscribe for an aggregate of 14,040,000 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 30 June 2007 are set out as follows:

Category of participants	Exercise price per share (HK\$)	Date of grant	Number of share options				Outstanding as at 30 June 2007
			As at 1 January 2007	Granted during the period	Exercised during the period ⁽¹⁾	Lapsed during the period	
Directors	0.52	10 November 2006	12,100,000	–	–	–	12,100,000
	0.59	16 August 2005	1,000,000	–	–	–	1,000,000
Employees	0.152	11 October 2004	875,000	–	235,000	–	640,000
	0.475	8 August 2006	300,000	–	–	–	300,000
Total			14,275,000	–	235,000	–	14,040,000

Note:

1. The closing prices of the shares of the Company immediately before 15 January 2007 and 22 March 2007, the dates on which the share options were exercised, were HK\$0.41 and HK\$0.65 respectively.

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

As at 30 June 2007, the interests and short positions of the Directors and chief executive of the Company and their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be 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 and short positions which they were 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

Name of Directors	Number of shares of the Company			Approximate percentage of the issued share capital of the Company
	Personal Interest	Corporate Interest	Total	
Dr. Poon Kwok Lim, Steven	8,330,000 ⁽¹⁾	267,421,528 ⁽²⁾	275,751,528	44.86%
Mr. Poon Shu Yan, Joseph	7,400,000 ⁽³⁾	–	7,400,000	1.20%
Mr. Mok Hay Hoi	430,000	–	430,000	0.07%
Mr. Tam Tak Wah	120,000	–	120,000	0.02%

Notes:

1. Dr. Poon Kwok Lim, Steven beneficially owned 8,330,000 shares of the Company, representing approximately 1.36% of the issued share capital of the Company. By virtue of the SFO, Mrs. Poon Wong Wai Ping ("Mrs. Poon"), the spouse of Dr. Poon Kwok Lim, Steven, was deemed to be interested in all the shares in which Dr. Poon Kwok Lim, Steven was interested.
2. Dr. Poon Kwok Lim, Steven owned 267,421,528 shares of the Company, representing approximately 43.51% of the issued share capital of the Company, through (i) Amazing Nova Corporation owned 167,886,666 shares of the Company, representing approximately 27.31% of the issued share capital of the Company; (ii) Matrix Worldwide Corporation owned 61,606,666 shares of the Company, representing approximately 10.02% of the issued share capital of the Company; (iii) Forever Triumph Limited owned 13,208,196 shares of the Company, representing approximately 2.15% of the issued share capital of the Company; and (iv) Bright World Enterprise Limited owned 24,720,000 shares of the Company, representing approximately 4.02% of the issued share capital of the Company. These shares were the same as those shares as disclosed in the section headed "Interests and Short Positions in the Shares and Underlying Shares" below.

Dr. 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 Worldwide Corporation, Forever Triumph Limited and Bright World Enterprise Limited, thereby he was deemed to be interested in all the 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 Dr. Poon Kwok Lim, Steven was interested.

3. Mr. Poon Shu Yan, Joseph beneficially owned 7,400,000 shares of the Company, representing approximately 1.20% 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 in the Company

i. Pre-IPO Share Option Scheme

Name of Directors	Date of grant	Exercise price per share (HK\$)	Exercisable period	Number of share options		
				As at 1 January 2007	Exercised during the period	As at 30 June 2007
Dr. Poon Kwok Lim, Steven	24 July 2002	0.12	17 October 2003 to 23 July 2012	4,000	-	4,000
Mr. Mok Hay Hoi	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	Number of share options			
				Granted during the period	As at 1 January 2007	Exercised during the period	As at 30 June 2007
Dr. Poon Kwok Lim, Steven	10 November 2006	0.52	10 November 2006 to 9 November 2016	-	6,100,000	-	6,100,000
Mr. Poon Shu Yan, Joseph	10 November 2006	0.52	10 November 2006 to 9 November 2016	-	6,000,000	-	6,000,000
Mr. 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 30 June 2007, 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 were 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.

Other than 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 AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2007, the persons or corporations who had 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 Part XV of the SFO or had otherwise been notified to the Company were as follows:

1. Long Positions in the shares of the Company

Name of shareholders	Note	Capacity	No. of shares held	Approximate percentage of the issued share capital of the Company
Dr. Poon Kwok Lim,	1	Beneficial owner	8,330,000	1.36%
Steven	2,3,4,5	Interest of controlled corporation	267,421,528	43.51%
Mrs. Poon	1	Interest of spouse	8,330,000	1.36%
	2,3,4,5	Interest of controlled corporation	267,421,528	43.51%
Amazing Nova Corporation	2	Beneficial owner	167,886,666	27.31%
Matrix Worldwide Corporation	3	Beneficial owner	61,606,666	10.02%
Forever Triumph Limited	4	Beneficial owner	13,208,196	2.15%
Bright World Enterprise Limited	5	Beneficial owner	24,720,000	4.02%
Deutsche Bank Aktiengesellschaft		Beneficial owner	77,160,000	12.55%

Notes:

1. Dr. Poon Kwok Lim, Steven beneficially owned 8,330,000 shares of the Company, representing approximately 1.36% 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 Dr. Poon Kwok Lim, Steven was interested.
2. Amazing Nova Corporation is beneficially owned as to 40% by Dr. Poon Kwok Lim, Steven and as to 40% by Mrs. Poon. By virtue of the SFO, Dr. Poon Kwok Lim, Steven and Mrs. Poon were 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 rights in Amazing Nova Corporation.
3. Matrix Worldwide Corporation is wholly and beneficially owned by Dr. Poon Kwok Lim, Steven. By virtue of the SFO, Dr. Poon Kwok Lim, Steven and Mrs. Poon were deemed to be interested in all the shares held by Matrix Worldwide Corporation.
4. Forever Triumph Limited is wholly and beneficially owned by Dr. Poon Kwok Lim, Steven. By virtue of the SFO, Dr. Poon Kwok Lim, Steven and Mrs. Poon were deemed to be interested in all the shares held by Forever Triumph Limited.
5. Bright World Enterprise Limited is beneficially owned as to 80% by Dr. Poon Kwok Lim, Steven and as to 20% by Mrs. Poon. By virtue of the SFO, Dr. Poon Kwok Lim, Steven and Mrs. Poon were deemed to be interested in all the shares held by Bright World Enterprise Limited.

2. Long Positions in the underlying shares of the Company

Warrants

Name of Warrantholder	Number of warrants			Number of shares issued since the date of grant	Approximate percentage of the issued share capital of the Company
	Granted on 27 February 2004	Exercised since the date of grant	As at 30 June 2007		
Lim Asia Arbitrage Fund Inc	41,010,000	16,010,000	25,000,000	16,010,000	4.07% ^(Note)

Note:

For the avoidance of doubt, interests in the underlying shares have not been taken into account when calculating the percentage as set out above since these underlying shares have not been issued as at 30 June 2007.

Save as disclosed above, as at 30 June 2007, the Company had not been notified of any other persons or corporations who had interests or short positions in the shares and/or underlying shares of the Company, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 June 2007.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices and procedures with an aim to maximizing the shareholders' interests as well as to enhancing the stakeholders' transparency and accountability. In this respect, the Company has complied with most of the code provisions set out in the Code on Corporate Governance (the "Code") contained in Appendix 15 of the GEM Listing Rules, except for the deviation from code provision A.4.2 of the Code.

Under code provision A.4.2 of the Code, every director should be subject to retirement by rotation at least once every three years. The Directors have not been required by the Articles of Association to retire by rotation once every three years. However, according to Article 87 of the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) shall retire from office by rotation save any Director holding office as Chairman and/or Managing Director. The Board will ensure the retirement of each Director, other than the one who holds the office as Chairman and/or Managing Director, by rotation at least once every three years in order to comply with the Code provisions. The Chairman of the Company will not be subject to retirement by rotation as stipulated under code provision A.4.2 of the Code as the Board considers the continuity of office of the Chairman enables the Group to maintain a consistent leadership which is of crucial importance to the smooth operations of the Group.

The Company has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2006 annual report of the Company.

COMPETING INTERESTS

None of the Directors or management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest, whether directly or indirectly, in a business which competes or may compete with the business of the Group.

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

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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") in 2002 with written terms of reference, which deal clearly with its authorities and duties. The primary duties of the Audit Committee are to review the Company's annual reports and accounts, half-year reports and quarterly reports and discuss with the management over issues relating to auditing, internal control and financial reporting. The Audit Committee now comprises three independent non-executive Directors, namely Mr. Tam Tak Wah (Chairman), Mr. Tsui Yiu Wa, Alec and Mr. Yeung Pak Sing.

The Group's unaudited results for the six months ended 30 June 2007 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:

Dr. 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

Hong Kong, 9 August 2007

On behalf of the Board

Vertex Group Limited

Poon Kwok Lim, Steven

Chairman