Annual Report
2009

Vertex

Vertex Group Limited

(to be renamed as NATIONAL ARTS HOLDINGS LIMITED)
(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 8228)

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 on 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 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 seven directors, of which three are executive directors, namely Mr. Tang Yat Ming Edward, Mr. Poon Shu Yan Joseph, and Mr. Li Sin Hung Maxim; the non-executive director, namely Mr. Lam Kwok Hing Wilfred; and the remaining are independent non-executive directors, namely Mr. Chan Tin Lup Trevor, Mr. Chui Chi Yun Robert and Dr. Wong Lung Tak Patrick.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Tang Yat Ming, Edward *(Chairman)*
Mr. Poon Shu Yan, Joseph *(CEO)*
Mr. Li Sin Hung, Maxim

Non-executive Director
Mr. Lam Kwok Hing, Wilfred

Independent Non-executive Directors
Mr. Chan Tin Lup, Trevor
Mr. Chui Chi Yun, Robert
Dr. Wong Lung Tak, Patrick

COMPANY SECRETARY

Mr. Tang Yat Ming, Edward

QUALIFIED ACCOUNTANT

Mr. Tang Yat Ming, Edward
(appointed on 8 September 2008)

COMPLIANCE OFFICER

Mr. Li Sin Hung, Maxim

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Rooms 905-906, 9/F
Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICES

Principal share registrar and transfer office
HSBC Trustee (Cayman) Limited
PO Box 484, HSBC House
68 West Bay Road, Grand Cayman
KY1-1106, Cayman Islands

Hong Kong branch share registrar and transfer office
Tricor Secretaries Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Tang Yat Ming, Edward
Mr. Li Sin Hung, Maxim

COMMITTEES

Audit Committee
Mr. Chui Chi Yun, Robert *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Chan Tin Lup, Trevor
Dr. Wong Lung Tak, Patrick

Remuneration Committee
Mr. Chui Chi Yun, Robert *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Chan Tin Lup, Trevor
Dr. Wong Lung Tak, Patrick

LEGAL ADVISORS

Richards Butler
Conyers Dill & Pearman

AUDITORS

Grant Thornton, Certified Public Accountants

PRINCIPAL BANKERS

Hang Seng Bank
Fubon Bank

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

GROUP'S WEBSITE

http://www.vgl.hk

STOCK CODE

8228

Chairman's Statement

Dear Shareholders,

I am reporting the activities of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

With governments' quantitative easing policies, the demand has been increasing. China has been one of the countries less affected by the economic downturn and continuously enjoying the growth. However, under the suspicion of inflation and governments' exit strategies, the customer confidence has not been fully restored. Under such economic conditions, the Group determines to diversify our business to capture the growing demand with extreme caution in every investment decision.

In order to reserve our resources for upcoming promising business areas, the Group has suspended and disposed those business segments unable to contribute further financial benefits. In 2009, the development of energy business and power projects in various regions remained slow due to the fluctuation of the demands and prices of commodities. The energy business was considered to be unfavorable under unstable economic condition and hence was disposed last year.

The Group's engineering companies continue to bring positive impact to the Group. They are able to retain their reputable customers which secure major engineering projects. However, as the competition in the industry has affected the margin of the projects, the expansion of the business would become unfavorable because the margin contribution and the impact on the cash flow are uncertain.

The view of the Group is to diversify its business in order to capture other possible investment potentials. Starting from last year, China government has put emphasis on cultural development and supports the film production industry, in which they have opened a door to investment from overseas to this business segment. In view of the positive prospect of the film production as well as entertainment industry, the Group intends to tap into the film production industry and to allocate and devote more resources in the film production and entertainment industry.

In October 2009, the Group completed the acquisition of National Arts Entertainment Holdings Limited engaging in film production and entertainment related business. It is expected that the acquisition will secure the Group a more stable income source and improve the overall financial performance of the Group. Further, the Company is currently seeking other film-related development opportunities, including but not limited to, artiste expansion and training.

In order to strengthen the capital base and support the diversification, the Company has raised funds in the years of 2009 and 2010. We believe that the funding activities would not only restore the Company into a healthy level but also positively impact on the newly invested business segment of the Group.

Last but not the least, the name of the company will be changed from "Vertex Group Limited" to "National Arts Holdings Limited" so as to show our determination on our diversification strategy.

I am confident and optimistic that the Group will enjoy a prosperous year in 2010.

PROSPECTS

In 2009, the Group's engineering companies continue to bring positive impact to the Group. However, as the competition in the industry has affected the margin of the projects, further expansion of the business would not be considered because the future margin contribution and the impact on the cash flow are uncertain.

The cultural development policy in China has given a good sign on the film production industry. The prospects on investing film production and entertainment businesses are positive and anticipative. Hence the Group completed the acquisition of National Arts Entertainment Holdings Limited during the period under review and will tend to drain more resources in this business segment for capturing the benefit. The Group has invested a movie and the production has been substantially completed. The movie is planned to be released in the middle of 2010.

Further, the Group is looking for other development opportunities in relation to film industries, including but not limited artiste management and development.

FINANCIAL REVIEW

Results

During the year under view, the Group reported a turnover of approximately HK$5.5 million, a drop of HK$10 million or 65% as compared to the turnover in the previous year. The turnover was mainly attributable to the engineering business, which contributed 99% of turnover to the Group.

Staff costs for the year under review decreased to approximately HK$4 million from approximately HK$13 million in the previous year. The decrease in staff costs was mainly due to lesser headcount in media business as well as management consultancy services team during the year under review.

The direct operating and subcontracting costs for the year under review amounted to approximately HK$4.9 million. The decrease in direct operating and subcontracting costs was mainly due to the suspension of energy consultant business.

For the year ended 31 December 2009, the Group recorded a net profit of approximately HK$28.7 million from discontinued operations due to the gain on disposal of subsidiaries.

Net profit attributable to shareholders for the year was HK$20.3 million as compared to net loss of the preceding year of approximately HK$33.6 million.

Liquidity and Financial Resources

During the year ended 31 December 2009, the Group financed its operations with its own working capital, internally generated cash flow and proceeds from issuance of new shares. As at 31 December 2009, the Group did not have any bank loans and has cash of HK$6.2 million.

Dividend

The directors do not recommend payment of a final dividend for the year ended 31 December 2009 (2008: Nil).

Capital Structure

The shares of the Company were listed on the GEM of the Stock Exchange on 17 October 2002. There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares. As at 31 December 2009, 1,189,635,348 ordinary shares were issued and fully paid.

Foreign Exchange Exposure

Since most of the transactions of the Group are denominated either in Hong Kong Dollars or Renminbi or US dollars and the exchange rates of such currencies were stable over years under review, the Directors are of the view that the exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

Material Acquisitions or Disposal of Subsidiaries and Affiliated Companies

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the financial year ended 31 December 2009.

Capital Commitment and Substantial Investments

The Group did not have any capital commitment and substantial investments.

Future Plans for Substantial Investments or Capital Assets

Other than those disclosed, the Group did not have any plan for substantial investments or capital assets.

Subsequent Events

1. Open offer

On 29 January 2010, the Company proposed to raise not less than approximately HK$107.07 million and not more than approximately HK$107.77 million before expenses by way of an open offer of not less than 3,568,906,044 offer shares and not more than 3,592,218,870 offer shares at price of HK$0.03 per share, payable in full upon application, on the basis of three offer shares for every one share held by the qualifying shareholders on the record date (the "2010 Open Offer"). The 2010 Open Offer was approved at the extraordinary general meeting of the Company on 15 March 2010 and the latest time for the 2010 Open Offer to become unconditional will be on 12 April 2010 in accordance with the expected timetable of the 2010 Open Offer. Details of the 2010 Open Offer are set out in the Company's circular dated 19 February 2010 and the Company's prospectus dated 18 March 2010.

2. Change of Company name

On 15 March 2010, a special resolution was passed at the extraordinary general meeting of the Company to approve the change of the Company name from "Vertex Group Limited" to "National Arts Holdings Limited" and the new Chinese name "國藝控股有限公司" will be adopted to replace "慧峰集團有限公司". As at the date of approval of these consolidated financial statements, the Company is in the process of carrying out the necessary filing procedures with the Registrar of Companies in Hong Kong and the change of the Company name shall take effect from the date on which the new name of the Company be entered by the Registrar of Companies in Hong Kong into the register of companies in place of the existing name.

Contingent Liabilities

During the year, Network Engineering Limited ("NEL"), a wholly-owned subsidiary of the Company, had entered into an agreement to provide engineering services in favor of a contractor in Hong Kong (the "Contractor"). Pursuant to which, NEL had offered performance bonds of HK$200,000 in favor of the Contractor the due performance of the agreement signed. The Directors, on the basis of work schedule, have considered that it is not necessary to make a provision for in the consolidated financial statements.

Gearing Ratio

The Group's gearing ratio as at 31 December 2009 dropped to nil (2008: 263%). The gearing ratio was based on the Group's total debts over its total assets.

Material Acquisitions or Disposals

During the year ended 31 December 2009, the Company completed the acquisition of National Arts Entertainment Holdings Limited at a consideration of HK$9,000,000 in cash in October 2009.

On 11 November 2009, the Company entered into a sale and purchase agreement with Forever Triumph Limited in respect of the disposal of 100% interest in Vertex CDM Limited for the consideration of HK$200,000.

Employee and Remuneration Policy

As at 31 December 2009, the Group had a total of 11 (2008: 11) staff based in the PRC and Hong Kong. The Group remunerates its employees based on their performances, experiences and the prevailing industry practices. In addition to basic salaries and mandatory provident fund, staff benefits including medical coverage scheme and share options are offered.

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 retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

EXECUTIVE DIRECTORS

Mr. Tang Yat Ming, Edward, aged 45, is the Chairman of the Board and the Company Secretary of the Group. Mr. Tang joined the Group in September 2008. Mr. Tang holds a bachelor degree of Management and is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. Mr. Tang is a Chartered Financial Analyst. Prior to joining the Group, Mr. Tang held senior financial positions in various technology, telecommunication, and manufacturing companies. He has about 19 years' experience covering accounting, finance, investment and business development. Mr. Tang was appointed as an Executive Director in December 2009.

Mr. Poon Shu Yan, Joseph, aged 39, is the Chief Executive Officer of the Group. Mr. Poon has been employed by the Group since May 1998 and was one of the founders of the Group in 1998. He holds a bachelor of science degree in electrical engineering from the University of Southern California. Mr. Poon was appointed as an Executive Director in May 1998.

Mr. Li Sin Hung, Maxim, aged 39, joined Cathay Pacific Airway Limited in early 1990's. After resigned from Cathay Pacific, Mr. Li continued his education in Boston and started food and beverage business and plastic resin trading business in United States. In 2000, Mr. Li returned to Hong Kong and had been worked in HSBC, Federal Express Pacific Inc. and Midland Holdings Limited. Mr. Li is a current holder of Estate Agents Licence (Individual). Mr. Li was appointed as an Executive Director in May 2009.

NON-EXECUTIVE DIRECTOR

Mr. Lam Kwok Hing, Wilfred, *J.P.* aged 50, and has been awarded Queen's Badge of Honour in January 1997 and appointed Justice of Peace by the HKSAR in 1999. Mr. Lam holds a bachelor degree of Law with honors in the University of Hong Kong and is a practising solicitor of Hong Kong. He also holds the professional qualification of Estate Agent's (Individual) Licence in Hong Kong. He is presently a Senior Associate of Philip KH Wong, Kennedy YH Wong & Co., Solicitors & Notaries. Being an active member in social and charity activities, Mr. Lam is an Assistant Commissioner & Support Force Commander of the Civil Aid Service and Director of the Kwai Tsing District Community Development Fund in Hong Kong. He is also an executive member of the liaison association of the Chinese People's Political Consultative Conference, Guangdong Province. Mr. Lam is an Independent Non-executive Director of Value Convergence Holdings Limited (stock code: 821.hk), Mr. Lam was re-designated from an Independent Non-executive Director to a Non-executive Director in February 2010. Prior to the re-designation, Mr. Lam has joined the Group since May 2009 as an Independent Non-executive Director.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Tin Lup, Trevor, aged 50, was born in Hong Kong and has been in the legal field for over 20 years. He received his law degree in England where he was awarded the Postgraduate Diploma in Laws (the Legal Practice Course) from the University of Wolverhampton. Apart from his law degree, he also obtained a bachelor degree in Chinese literature and history. Before he commenced his practice, he had worked with the Insolvency and Criminal Litigation Sections of the Legal Aid Department for 12 years. As for the public service, Mr. Chan was an honorary chairman and legal adviser of the Urban Services Staff Association (Tsuen Wan Welfare Section). He was also the former Chairman of the Parent Teacher Association of St. Mark's School. His articles on "Default Judgments" and "Borrowing Other's Brand Name – Passing-off" were published in the monthly official journal of the Law Society of Hong Kong and in Hong Kong Economic Times. He is a general practice lawyer but his practice is mainly in civil litigation, criminal litigation, judicial review, immigration and company matters. Mr. Chan was appointed as an Independent Non-executive Director in May 2009.

Mr. Chui Chi Yun, Robert, aged 53, holds a Bachelor's degree in Commerce (major in Accounting) and is a practicing Certified Public Accountant in Hong Kong. Mr. Chui is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. Mr. Chui is also an Independent Non-executive Director of Tse Sui Luen Jewellery (International) Limited (stock code: 417.hk) and 21 Holdings Limited (stock code: 1003.hk). Mr. Chui was appointed as an Independent Non-executive Director in May 2009.

Dr. Wong Lung Tak, Patrick, *J.P.,* aged 62, is a Practising Certified Public Accountant and is the managing director of Wong Lam Leung & Kwok CPA Limited. He has over 30 years' experience in the accountancy profession. Among his qualifications, he obtained a Doctor of Philosophy in Business in 2000, awarded a Badge of Honour in 1993 by the Queen of England and appointed a Justice of the Peace in 1998. Dr. Wong involves in many other community services, holdings posts in various organisations and committees in government and voluntary agencies. Dr. Wong is an Independent Non-executive Director of Water Oasis Group Limited (stock code: 1161.hk), China Precious Metal Resources Holdings Co., Ltd (stock code: 1194.hk), C C Land Holdings Limited (stock code: 1224.hk), Galaxy Entertainment Group Limited (stock code: 27.hk) and Ruinian International Limited (stock code: 2010.hk). Dr. Wong was appointed as an Independent Non-executive Director in February 2010.

The board of directors (the "Board") has pleasure in presenting the directors' report together with the audited financial statements of Vertex Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The principal activities of the Group include the provision of network infrastructure and electrical installation services, digital solution services, film production and distribution and provision of artistes management, advertising and promotion services.

The analysis of the principal activities and geographical locations of the operations of the Group are set out in note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 27.

No dividend was paid during the year. The Board does not recommend the payment of a dividend for the year ended 31 December 2009 (2008: Nil).

FINANCIAL SUMMARY

A summary of the financial results and the assets, liabilities and equity of the Group for the last five financial years is set out on page 98.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the year are set out in note 15 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements in share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company has no reserves available for distribution to shareholders (2008: Nil).

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:
Mr. Tang Yat Ming, Edward *(Chairman)* – appointed on 16 December 2009
Mr. Poon Shu Yan, Joseph *(Chief Executive Officer)*
Mr. Li Sin Hung, Maxim – appointed on 13 May 2009
Dr. Poon Kwok Lim, Steven – resigned on 19 May 2009
Mr. Yum Pui – appointed on 13 May 2009 and resigned on 16 December 2009

Non-executive Director:
Mr. Lam Kwok Hing, Wilfred – appointed on 13 May 2009 and re-designated from Independent Non-executive Director on 3 February 2010

Independent Non-executive Directors:
Mr. Chan Tin Lup, Trevor – appointed on 13 May 2009
Mr. Chui Chi Yun, Robert – appointed on 13 May 2009
Dr. Wong Lung Tak, Patrick – appointed on 3 February 2010
Mr. Tam Tak Wah – resigned on 23 June 2009
Mr. Tsui Yiu Wa, Alec – retired on 30 April 2009
Mr. Yeung Pak Sing – retired on 30 April 2009
Mr. Lam Kwok Hing, Wilfred – appointed on 13 May 2009 and re-designated from Independent Non-executive Director to Non-executive Director on 3 February 2010

In accordance with article 87 of the Articles of Association of the Company, Mr. Poon Shu Yan, Joseph, Mr. Lam Kwok Hing, Wilfred and Mr. Chan Tin Lup, Trevor shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. All other directors continue in office.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors and Non-executive Director of the Company has entered into a service contract with the Company for a term of one year. The service contract is terminable from either party by serving a written notice to the other of not less than one calendar month. Each Executive Director and Non-executive Director is entitled to a basic salary and remuneration subject to an annual revision by the Board.

Details of the directors' fees or emolument payable to Directors are set out in note 14 to the consolidated financial statements.

Each of the Independent Non-executive Directors of the Company has been appointed for a term of one year with specific terms as stated in the letter of appointment. The letter of appointment is terminable from either party by serving a written notice to the other of not less than one calendar month.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The Board considers all the Independent Non-executive Directors of the Company are independent.

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

As at 31 December 2009, 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

	Number of shares of the Company			Approximate percentage of the issued share capital of the Company
Name of Director	**Beneficial owner**	**Interest in controlled corporation**	**Total**	
Dr. Poon Kwok Lim, Steven*	–	101,544,862 (1)	101,544,862	8.54%

* resigned on 19 May 2009

Note:

1. Dr. Poon Kwok Lim, Steven owned 101,544,862 shares of the Company, representing approximately 8.54% of the issued share capital of the Company through Bright World Enterprise Limited ("Bright World"). The entire issued share capital of Bright World is wholly and beneficially owned by Asia Link Investment Limited which in turn is wholly and beneficially owned by Bauhinia Investment Management Limited which is legally and beneficially interested in as to 80% by Dr. Poon, a former Executive Director who resigned on 19 May 2009, and as to 20% by Mrs. Poon Wong Wai Ping, the spouse of Dr. Poon. 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 Bright World Enterprise Limited, thereby he was deemed to be interested in all the shares held by the aforesaid company 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.

2. Rights to acquire shares in the Company

i. Pre-IPO Share Option Scheme

Name of Director	Date of grant	Exercise price per share* (HK$)	Exercisable period	Number of share options* As at 1 January 2009	Exercised during the year	Lapsed during the year	As at 31 December 2009
Dr. Poon Kwok Lim, Steven**	24 July 2002	0.113	17 October 2003 to 23 July 2012	4,236	–	4,236	–

ii. Post-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 2009	Exercised during the year	Lapsed during the year	As at 31 December 2009
Dr. Poon Kwok Lim, Steven**	10 November 2006	0.491	10 November 2006 to 9 November 2016	6,459,900	–	6,459,900	–
Mr. Poon Shu Yan, Joseph	10 November 2006	0.491	10 November 2006 to 9 November 2016	6,354,000	–	–	6,354,000

* Pursuant to the announcement regarding to the result of the Open Offer dated 4 August 2009, the exercise price of the share options and the number of outstanding share options as at the completion of the Open Offer were required to be adjusted as a result of the Open Offer. The auditors of the Company has reviewed and agreed with the adjustments to the share options.

** resigned on 19 May 2009

Save as disclosed above, none of the Directors, Chief Executive or their associates had, as at 31 December 2009, 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 year 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 31 December 2009, 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 shareholder	Capacity	No. of shares held	Approximate percentage of the issued share capital of the Company
Tse Young Lai	Beneficial owner	147,803,333	12.42%

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 31 December 2009, the share options to subscribe for an aggregate of 1,416,942 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 31 December 2009 are set out as follows:

		Number of share options*			
Category of participants	**Exercise price per share*** (HK$)	**As at 1 January 2009**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 December 2009**
Directors	0.113	4,236	–	4,236	–
Advisors and consultants	0.425	1,412,706	–	–	1,412,706
Employees	0.113	4,236	–	–	4,236
Total		1,421,178	–	4,236	1,416,942

Post-IPO Share Option Scheme

As at 31 December 2009, the share options to subscribe for an aggregate of 6,354,000 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 December 2009 are set out as follows:

			Number of share options*				
Category of participants	Exercise price per share (HK$)	Date of grant	As at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2009
Directors	0.491*	10 November 2006	12,813,900	–	–	6,459,900	6,354,000
Employees	0.475	8 August 2006	300,000	–	–	300,000	–
Total			13,113,900	–	–	6,759,900	6,354,000

* Pursuant to the announcement regarding to the result of the Open Offer dated 4 August 2009, the exercise price of the share options and the number of outstanding share options as at the completion of the Open Offer were required to be adjusted as a result of the Open Offer. The auditors of the Company has reviewed and agreed with the adjustments to the share options.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which any Directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

RETIREMENT BENEFITS SCHEMES

Before 30 November 2000, the Group did not contribute to any retirement benefit scheme for either its employees or the Directors in Hong Kong. With effect from 1 December 2000, the Group had joined the Mandatory Provident Fund Scheme under the rules and regulations of the Mandatory Provident Fund Schemes Authority. The Group's employees in Hong Kong are required to join the scheme. The Group has followed the minimum statutory contribution requirement of 5% of eligible employees' relevant aggregate income.

The Group's subsidiary in the PRC, in compliance with the applicable regulations of the PRC, participated in social insurance schemes (including retirement benefit scheme, medical insurance scheme and unemployment benefit scheme) operated by the relevant local government authorities. The Group is required to make contribution to the social insurance schemes on behalf of employees who are registered permanent residents in the PRC. The insurance premium is borne by the Group and the employees on a specified proportion of the employees' salaries laid down under the relevant PRC law.

During the year, the employer's contributions to the retirement benefit scheme charged to the consolidated statement of comprehensive income amounted to approximately HK$86,000 (2008: HK$404,000).

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

During the year ended 31 December 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Memorandum and Articles of Association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

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.

MAJOR SUPPLIERS AND CUSTOMERS

The five largest customers of the Group accounted for approximately 99.9% of the Group's turnover for the year. The Group's largest customer accounted for approximately 98.6% of its turnover.

The five largest suppliers of the Group accounted for approximately 91.6% of the Group's purchases for the year. The Group's largest supplier accounted for approximately 58% of its purchases.

Save as disclosed above, none of the Directors, their respective associates nor shareholders (which to the knowledge of the Directors owned more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers at any time during the year.

CORPORATE GOVERNANCE

The Company has complied with most of the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2009. Please refer to the Corporate Governance Report on pages 19 to 24 for details.

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 year ended 31 December 2009.

AUDIT COMMITTEE

The Company has established an Audit Committee in 2002 which now comprises three Independent Non-executive Directors and one Non-executive Director, Mr. Chui Chi Yun, Robert (Chairman), Mr. Chan Tin Lup, Trevor, Dr. Wong Lung Tak, Patrick and Mr. Lam Kwok Hing, Wilfred.

During the year, the Audit Committee has met four times 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 has reviewed the audited financial results of the Group for the year ended 31 December 2009. Please refer to the Corporate Governance Report on pages 19 to 24 for details.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Grant Thornton as auditors of the Company.

On behalf of the Board

Tang Yat Ming, Edward
CHAIRMAN

Hong Kong, 24 March 2010

CORPORATE GOVERNANCE PRACTICES

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.

To the best knowledge of the Board, the Company has complied with most of the Code provisions during the year ended 31 December 2009.

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 as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Code of Conduct").

Specific enquiry has been made with all Directors of the Company and the Directors have confirmed that they have complied with the required standard of dealings set out in the Code of Conduct throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

The Company has a balanced Board composition of Executive and Non-executive Directors. During the year ended 31 December 2009, the Board comprised six members, three of whom were Executive Directors and three of whom were Independent Non-executive Directors:

Executive Directors:
Mr. Tang Yat Ming, Edward *(Chairman)*
Mr. Poon Shu Yan, Joseph *(Chief Executive Officer)*
Mr. Li Sin Hung, Maxim

Independent Non-executive Directors:
Mr. Chan Tin Lup, Trevor
Mr. Chui Chi Yun, Robert
Mr. Lam Kwok Hing, Wilfred

Corporate Governance Report

The Board is responsible for the overall strategic planning and business development of the Group. It monitors the financial performance and internal controls of the Group's business operations. The day-to-day operations of the Company and implementation of business strategies are delegated to the management with department heads responsible for different aspects of the business.

The Board represents a mixture of expertise specializing in management, engineering, law, accounts and finance. All the Directors have comprehensive qualifications and experience as well as exposure to diversified business which are crucial to the business growth of the Group. With at least half of the Board members being Independent Non-executive Directors, the Board can effectively exercise independent judgement and advice to the management of the Company and can make decisions objectively for the best interests of the Company and all shareholders. Details of backgrounds and qualifications of each Director are set out in the section headed "Biographical Details of Directors" in this annual report.

To the best knowledge of the Board, there is no financial, business and family relationship among the members of the Board.

Regular Board meetings are held at least four times each year at approximately quarterly intervals to discuss the Group's business development, operation and financial performance. Notice of at least 14 days is given to all Directors for all regular Board meetings to give all Directors an opportunity to attend.

All regular Board meetings adhere to a formal agenda in which a schedule of matters is addressed to the Board. All Directors have access to board papers and related materials, and are provided with sufficient information in order to make informed decisions on the matters to be discussed and considered at the Board meetings. Proper minutes of Board meetings are kept by the Company Secretary of the Company and are readily available for inspection by any Director upon request.

During the year ended 31 December 2009, a total of four Board meetings was held and the attendance record of each individual Board member at these Board meetings is set out in the following table:

	Directors' Attendance
Dr. Poon Kwok Lim, Steven[1]	2/2
Mr. Poon Shu Yan, Joseph	4/4
Mr. Tam Tak Wah[2]	2/2
Mr. Tsui Yiu Wa, Alec[3]	1/1
Mr. Yeung Pak Sing[3]	1/1
Mr. Yum Pui[4]	1/2
Mr. Li Sin Hung, Maxim[5]	2/2
Mr. Chan Tin Lup, Trevor[5]	2/2
Mr. Chui Chi Yun, Robert[5]	2/2
Mr. Lam Kwok Hing, Wilfred[6]	2/2

1 resigned on 19 May 2009
2 resigned on 23 June 2009
3 retired on 30 April 2009
4 appointed on 13 May 2009 and resigned on 16 December 2009
5 appointed on 13 May 2009
6 appointed on 13 May 2009 and re-designated from Independent Non-executive Director to Non-executive Director on 3 February 2010

Chairman and Chief Executive Officer

The Chairman of the Board and the Chief Executive Officer are held separately by two individuals with an aim to ensuring their respective independence and accountability as well as to maintaining a balance of power and authority. The Chairman, Mr. Tang Yat Ming, Edward is responsible for formulating the long-term strategies of the Group and overseeing its overall business development. The Chief Executive Officer, Mr. Poon Shu Yan, Joseph, is responsible for implementing the Group's business strategies and overseeing its day-to-day operations.

Non-executive Directors

Under code provision A.4.1 of the Code, Non-executive Directors should be appointed for a specific term and subject to re-election. All the current Independent Non-executive Directors of the Company have been appointed for a specific term of one year and are subject to retirement by rotation in accordance with the Articles of Association of the Company.

At least one of the Independent Non-executive Directors has the appropriate professional qualifications or accounting or related financial management expertise as required under the GEM Listing Rules. The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and considers them to be independent.

Appointment and Re-election of Directors

The Board is responsible for the appointment of any potential new directors and the nomination of directors for re-election by shareholders at the annual general meeting of the Company. In accordance with the Articles of Association of the Company, the Directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the Board or as an addition to the existing Board, whom is subject to retirement and re-election at the first annual general meeting after his appointment.

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.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee in 2005. The Remuneration Committee currently comprises four members, Mr. Chui Chi Yun, Robert (Chairman), Mr. Chan Tin Lup, Trevor, Dr. Wong Lung Tak, Patrick[1] and Mr. Lam Kwok Hing, Wilfred. Three of them are Independent Non-executive Directors and one is Non-executive Director.

The major responsibilities of the Remuneration Committee include: (i) to recommend to the Board on the Company's policy and structure for all remuneration of directors and senior management and to establish a formal and transparent procedure for developing such remuneration policy; (ii) to review and determine the remuneration packages of the executive directors and senior management and to ensure that no director is involved in deciding his own remuneration; and (iii) to review and make recommendations to the Board about the overall remuneration policy of the Company.

The Remuneration Committee held two meetings during the year ended 31 December 2009 and the attendance record of these meetings is set out in the following table:

	Directors' Attendance
Mr. Chui Chi Yun, Robert *(Chairman)*[2]	2/2
Mr. Chan Tin Lup, Trevor[2]	2/2
Mr. Lam Kwok Hing, Wilfred[2]	2/2

1 appointed on 3 February 2010
2 appointed on 13 May 2009

AUDIT COMMITTEE

The Audit Committee was established in 2002. The Audit Committee currently comprises four members, Mr. Chui Chi Yun, Robert (Chairman), Mr. Chan Tin Lup, Trevor, Dr. Wong Lung Tak, Patrick[1] and Mr. Lam Kwok Hing, Wilfred. Three of them are Independent Non-executive Directors and one is Non-executive Director.

The major responsibilities of the Audit Committee include: (i) to review the financial information of the Group such as annual and quarterly results prior to recommending to the Board's approval; (ii) to review and monitor financial reporting principles and practices; (iii) to recommend to the Board on the appointment and reappointment or removal of external auditors; and (iv) to oversee the financial reporting system and internal control procedures of the Group.

The Audit Committee held two meetings during the year ended 31 December 2009 and the attendance record of these meetings is set out in the following table:

	Directors' Attendance
Mr. Chui Chi Yun, Robert *(Chairman)*[2]	2/2
Mr. Chan Tin Lup, Trevor[2]	2/2
Mr. Lam Kwok Hing, Wilfred[5]	2/2
Mr. Tam Tak Wah[3]	2/2
Mr. Tsui Yiu Wa, Alec[4]	1/1
Mr. Yeung Pak Sing[4]	1/1

1 appointed on 3 February 2010

2 appointed on 13 May 2009

3 resigned on 23 June 2009

4 retired on 30 April 2009

5 appointed on 13 May 2009 and re-designated from Independent Non-executive Director to Non-executive Director on 3 February 2010

FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements for each financial period to give a true and fair view of the state of affairs of the Group. In preparing the financial statements for the year ended 31 December 2009, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis.

The statement of the external auditors of the Company regarding their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report, which is on pages 25 to 26 of this annual report.

AUDITORS' REMUNERATION

During the year ended 31 December 2009, the Group had engaged Messrs. Grant Thornton to provide the following services and their respective fees charged are set out below:

	Fee paid/payable
	HK$'000
Audit services rendered	350
Non-audit services rendered	–

INTERNAL CONTROL

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. In order to maintain a sound and effective internal control for safeguarding the Company's assets and shareholders' interests, the Board has adopted internal control policy and procedures (the "Internal Control") within the Company. The Internal Control is designed to provide reasonable assurance against misappropriate use of the Company's assets and to manage the Group's operational system in an efficient manner.

The Internal Control mainly covers areas of finance, operations and compliance. The Company shall conduct an annual review of the Internal Control to assess its effectiveness and shall make recommendations to the Board if any significant areas of concern are identified.

COMMUNICATION WITH SHAREHOLDERS

The Board is committed to maintaining an ongoing and transparent communication with all shareholders. The Directors host annual general meeting each year to meet the shareholders and answer their enquiries. The Company uses various communication channels, such as publication of annual and quarterly reports, press announcements and circulars, to update the shareholders on the Group's business developments and financial performance. Such information is also available on the Company's website: http://www.vgl.hk.

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of Vertex Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Vertex Group Limited (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 27 to 97, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

24 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
CONTINUING OPERATIONS			
Revenue/Turnover	5	**5,494**	4,745
Other operating income		**265**	129
Royalty and production costs		**–**	(141)
Direct operating and subcontracting costs		**(4,857)**	(4,165)
Staff costs	13	**(3,839)**	(7,455)
Depreciation of property, plant and equipment		**(299)**	(469)
Other operating expenses		**(4,603)**	(6,268)
Finance costs	7	**(907)**	(964)
Gain on disposal of an associate	18	**388**	–
Loss before income tax	8	**(8,358)**	(14,588)
Income tax expense	9	**–**	–
Loss for the year from continuing operations, attributable to the owners of the Company		**(8,358)**	(14,588)
DISCONTINUED OPERATIONS			
Profit/(Loss) for the year from discontinued operations, attributable to the owners of the Company	10	**28,672**	(19,022)
Profit/(Loss) for the year, attributable to the owners of the Company	11	**20,314**	(33,610)
Other comprehensive income			
Exchange differences on translation of financial statements of foreign operations		**(1)**	67
Other comprehensive income for the year		**(1)**	67
Total comprehensive income for the year, attributable to the owners of the Company		**20,313**	(33,543)
Earnings/(Loss) per share attributable to the owners of the Company for the year	12		
– Basic			
For profit/(loss) for the year		**HK2.31 cents**	(HK5.16 cents)
For loss from continuing operations		**(HK0.95 cent)**	(HK2.24 cents)
– Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	236	618
Goodwill	17	8,974	–
Deposits		–	236
		9,210	854
Current assets			
Film production in progress	19	14,691	–
Trade receivables	20	9,581	12,088
Prepayments, deposits and other receivables		1,420	3,078
Pledged bank deposits	21	200	200
Cash and cash equivalents	21	6,277	1,613
		32,169	16,979
Current liabilities			
Trade payables	22	11,226	12,464
Other payables and accruals		3,440	3,393
Amounts due to related companies	23	16,256	6,881
Bonds, secured	27	–	15,566
Provision for income tax		8	8
		30,930	38,312
Net current assets/(liabilities)		1,239	(21,333)
Total assets less current liabilities		10,449	(20,479)
Non-current liabilities			
Convertible bonds	26	–	31,403
Amounts due to related companies	23	–	8,381
		–	39,784
Net assets/(liabilities)		10,449	(60,263)
EQUITY			
Equity attributable to the owners of the Company			
Share capital	28	11,896	6,151
Reserves	29	(1,447)	(66,414)
Total equity/(Capital deficiency)		10,449	(60,263)

Director **Tang Yat Ming Edward**

Director **Poon Shu Yan Joseph**

Statement of Financial Position

As at 31 December 2009

	Notes	2009 HK$'000	2008 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**78**	618
Interests in subsidiaries	16	**9,000**	709
Deposits		**–**	236
		9,078	1,563
Current assets			
Prepayments, deposits and other receivables		**470**	510
Amounts due from subsidiaries	24	**8,100**	4,804
Cash and cash equivalents	21	**3,342**	840
		11,912	6,154
Current liabilities			
Other payables and accruals		**872**	1,479
Amounts due to related companies	23	**12,603**	6,881
Amounts due to subsidiaries	25	**1,088**	17,275
Bonds, secured	27	**–**	15,566
Financial guarantee contracts	33	**–**	174
		14,563	41,375
Net current liabilities		**(2,651)**	(35,221)
Total assets less current liabilities		**6,427**	(33,658)
Non-current liabilities			
Financial guarantee contracts	33	**–**	238
Amounts due to related companies	23	**–**	8,381
		–	8,619
Net assets/(liabilities)		**6,427**	(42,277)
EQUITY			
Share capital	28	**11,896**	6,151
Reserves	29	**(5,469)**	(48,428)
Total equity/(Capital deficiency)		**6,427**	(42,277)

Director | *Director*
Tang Yat Ming Edward | **Poon Shu Yan Joseph**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (note 29)	Warrant reserve HK$'000 (note 29)	Translation reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
	Equity attributable to the owners of the Company							
At 1 January 2008	6,149	116,519	1,000	1,750	221	2,265	(154,669)	(26,765)
Employee share-based compensation	–	–	–	–	–	14	–	14
Exercise of share options	2	29	–	–	–	–	–	31
Transactions with owners	2	29	–	–	–	14	–	45
Loss for the year	–	–	–	–	–	–	(33,610)	(33,610)
Other comprehensive income								
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	67	–	–	67
Total comprehensive income for the year	–	–	–	–	67	–	(33,610)	(33,543)
At 31 December 2008	6,151	116,548*	1,000*	1,750*	288*	2,279*	(188,279)*	(60,263)
At 1 January 2009	6,151	116,548	1,000	1,750	288	2,279	(188,279)	(60,263)
Employee share-based compensation	–	–	–	–	–	6	–	6
Shares issued under share placements	2,190	18,102	–	–	–	–	–	20,292
Shares issued under an open offer	3,555	28,444	–	–	–	–	–	31,999
Shares issue expenses	–	(1,898)	–	–	–	–	–	(1,898)
Transfer of lapsed warrants to accumulated losses	–	–	–	(1,750)	–	–	1,750	–
Transactions with owners	5,745	44,648	–	(1,750)	–	6	1,750	50,399
Profit for the year	–	–	–	–	–	–	20,314	20,314
Other comprehensive income								
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	(1)	–	–	(1)
Total comprehensive income for the year	–	–	–	–	(1)	–	20,314	20,313
At 31 December 2009	**11,896**	**161,196***	**1,000***	**–**	**287***	**2,285***	**(166,215)***	**10,449**

* The aggregate amount of these balances of HK$1,447,000 (2008: HK$66,414,000) in deficit is included as reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Cash flows from operating activities		
Profit/(Loss) before income tax, including loss from discontinued operations	**20,314**	(33,610)
Adjustments for:		
Finance costs	**2,519**	2,838
Interest income	**–**	(130)
Allowances for bad and doubtful debts in respect of:		
– Trade receivables	**1,006**	1,391
– Other receivables	**1,901**	85
Depreciation of property, plant and equipment	**299**	505
Change in fair value of convertible bonds	**4,310**	(1,596)
Impairment loss on available-for-sale investments	**–**	1,800
Write-off of property, plant and equipment	**364**	–
Loss on disposal of property, plant and equipment	**–**	590
Gain on disposal of an associate	**(388)**	–
Gain on disposal of subsidiaries	**(37,185)**	–
Equity settled share-based payment expenses	**6**	14
Operating loss before movements in working capital	**(6,854)**	(28,113)
Additions of film production in progress	**(14,691)**	–
Decrease/(Increase) in trade receivables	**1,517**	(421)
(Increase)/Decrease in prepayments, deposits and other receivables	**(123)**	2,003
(Decrease)/Increase in trade payables	**(1,420)**	2,073
Increase/(Decrease) in other payables and accruals	**886**	(521)
Net cash used in operating activities	**(20,685)**	(24,979)
Cash flows from investing activities		
Additional investment in available-for-sale investments	**–**	(300)
Increase in pledged bank deposits	**–**	(200)
Interest received	**–**	130
Purchase of property, plant and equipment	**(272)**	(474)
Disposal of subsidiaries (note 35)	**(24)**	–
Proceeds from disposal of an associate	**388**	–
Acquisition of subsidiaries (note 36)	**(8,044)**	–
Proceeds from disposal of property, plant and equipment	**–**	4
Net cash used in investing activities	**(7,952)**	(840)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 HK$'000	2008 HK$'000
Cash flows from financing activities		
Advance from related companies	994	9,898
Interest paid	(2,519)	(2,186)
Receipts of short term borrowings	22,000	–
Repayment of short-term borrowings	(22,000)	–
Repayment of secured bonds	(15,566)	–
Proceeds from issuance of new shares	52,291	31
Shares issue expenses	(1,898)	–
Net cash generated from financing activities	33,302	7,743
Increase/(Decrease) in cash and cash equivalents	4,665	(18,076)
Cash and cash equivalents at 1 January	1,613	19,637
Effect of foreign exchange rate changes	(1)	52
Cash and cash equivalents at 31 December (note 21)	6,277	1,613

1. GENERAL INFORMATION

Vertex Group Limited (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 Company's registered office is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands, British West Indies. The Company's principal place of business in Hong Kong was changed from Unit 2004-6, 20th Floor, Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong to Room 905-906, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong, with effect from 21 October 2009. The Company's shares are listed on The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is principally engaged in investment holding. Details of the principal activities of its subsidiaries are set out in note 16 to the consolidated financial statements. The Company and its subsidiaries are referred to as the Group hereafter.

The consolidated financial statements on pages 27 to 97 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collectively includes all applicable individual Hong Kong Financial Reporting Standard, Hong Kong Accounting Standard ("HKAS") and Interpretation ("Int") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

The consolidated financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2009 were approved for issue by the board of directors on 24 March 2010.

2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time, the following new standards, interpretations and amendments (the "New HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate
HKFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
Various	Annual Improvements to HKFRSs 2008

Other than as noted below, the adoption of the New HKFRSs had no material impact on how the results and financial positions of the Group have been prepared and presented for the current and prior periods.

HKAS 1 (Revised 2007) – Presentation of Financial Statements

The adoption of HKAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income. HKAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income". Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting polices on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated or company statement of financial position at 1 January 2008 and accordingly this statement is not presented.

HKFRS 7 (Amendments) – Improving Disclosures about Financial Instruments

The amendments require additional disclosures for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurements. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

HKFRS 8 – Operating Segments

The adoption of HKFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risks and returns. Comparatives have been restated on a basis consistent with the new standard.

At the date of approval of these consolidated financial statements, certain new or revised standards, amendments and interpretations have been published but are not yet effective, and have not been adopted early by the Group.

The directors of the Company (the "Directors") anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on the new or revised HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new or revised HKFRSs have been issued but are not expected to have a material impact on the Group's financial statements.

HKFRS 3 – Business Combinations (Revised 2008)

The standard is applicable in accounting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable assets and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in accounting periods beginning on or after 1 July 2009.

HKFRS 9 – Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The Directors are currently assessing the possible impact of the new standard on the Group's results and financial positions in the first year of application.

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

HKAS 27 Consolidated and Separate Financial Statements (Revised 2008)

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The Directors do not expect the standard to have a material effect on the Group's financial statements.

Annual Improvements 2009

The HKICPA has issued *Improvements to Hong Kong Financial Reporting Standards 2009*. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The Directors are currently assessing the possible impact of the amendments on the Group's results and financial positions in the first year of application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The consolidated financial statements have been prepared on the historical cost convention except for certain financial instruments which are stated at fair value. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 3.3 below) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to the owners of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated statement of comprehensive income as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Company has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

In consolidated financial statements, acquisition of subsidiaries (other than those under common control) is accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date.

3.4 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.8).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Foreign currency translation

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

When a foreign operation is disposed of, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on disposal.

3.6 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably on the following bases:

Income derived from provision of network infrastructure, electrical installation and digital solution services is recognised and determined using the percentage of completion method. The percentage of completion is calculated by comparing the costs incurred to date with the total estimated costs of the contract. When the contract is considered profitable, it is valued at cost plus attributable profits by reference to the percentage of completion. Any expected loss on individual construction contract is recognised immediately as an expense.

Revenue from sales of magazines/steam coal is recognised when the magazines/steam coal is delivered and title has been passed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 Revenue recognition *(Continued)*

Artiste management fee income and revenue from rendering of services are recognised when the agreed services are rendered.

Interest income is recognised on a time-proportion basis using the effective interest method.

Advertising income is recognised when the advertisements are published.

Advertising barter transactions

Revenue and expense from an advertising barter transaction are recognised at fair value only if the fair value of the advertising services surrendered in the transaction can be determined by reference to non-barter transactions of similar advertising services that involves cash and occurs frequently with buyers not related to the counter-party in the barter transaction.

3.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	over the shorter of the lease term and 20%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

The assets' estimated useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.7 Property, plant and equipment *(Continued)*

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged as an expense during the financial period in which they are incurred.

3.8 Impairment of non-financial assets

The following assets are subject to impairment testing:

– Goodwill arising on acquisition of a subsidiary;

– Film production in progress;

– Property, plant and equipment; and

– The Company's interests in subsidiaries.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Impairment of non-financial assets *(Continued)*

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.9 Film production in progress

Film production in progress is stated at cost less any impairment losses (note 3.8). Costs include all direct costs associated with the production of films such as direct labour costs, cost of services, facilities and raw materials consumed in the creation of a film. Upon completion, these films under production are reclassified as film rights. Film production in progress is accounted for on a film-by-film basis. Impairment losses are made for costs which are in excess of the expected future revenue generated by these films.

3.10 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged as an expense on a straight-line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are recognised as income in the accounting period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial asset includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss in the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss during the period in which the reversal occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(ii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Financial assets other than trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

3.12 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases at the reporting date. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Accounting for income taxes *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly to equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

3.13 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short term bank deposits with original maturities of three months or less which are subject to insignificant risk of changes in value.

3.14 Share capital and share premium

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Share premium includes any premiums received on the issuance of shares over the par value. Any transaction costs associated with the issuance of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Retirement benefit costs and short-term employee benefits

Retirement benefit costs

Retirement benefits to employees are provided through defined contribution plans. The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries or the maximum mandatory contribution as required by the MPF Scheme and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Company's subsidiary which operates in the PRC, except Hong Kong are required to participate in the employee retirement scheme operated by the relevant local government bureau in the PRC and to make contributions for their eligible employees. The contributions payable by the subsidiary are calculated based on a certain percentage of the salaries and wages of those eligible employees and are recognised as an expense during the period to which they relate.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.16 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the consolidated financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees and directors.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 Share-based employee compensation *(Continued)*

All share-based compensation is ultimately recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in share options reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are later forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

3.17 Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Convertible bonds at fair value through profit or loss

Convertible bonds that will or may not be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments are accounted for as financial liabilities with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risk and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. The convertible bonds with embedded derivatives that are not closely related to the host debt contract are designated as a whole as financial liabilities at fair value through profit or loss. At each reporting date subsequent to initial recognition, the entire convertible bond is measured at fair value with changes in fair value recognised directly in profit or loss during the period in which they arise.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 Financial liabilities *(Continued)*

Convertible bonds at fair value through profit or loss *(Continued)*

Transaction costs that are directly attributable to the issuance of the convertible bonds designated as financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; or

– the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or

– the financial liability contains an embedded derivative that would need to be separately recorded.

Other financial liabilities

Other financial liabilities (including trade and other payables, accruals and amounts due to related/group companies) are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

3.18 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Related parties

For the purpose of these consolidated financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close member of the family of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3.20 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operations is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of comprehensive income, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

3.22 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment test of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.4. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

Allowance for and written off of irrecoverable receivables

The Group's management determines the allowance for irrecoverable receivables on a regular basis. A considerable amount of judgement is required in assessing the ultimate realisation of the outstanding receivables. These estimates are based on the credit history of its customers and current market conditions. When the Group's management determines that there are indicators of significant financial difficulties of the debtors such as default or delinquency in payments, allowance for debtors are estimated. The management of the Group reassesses the estimations at the reporting date. When the Group's management determines the debtors are uncollectible, they are written off against the allowance account for debtors. Any amount held in the allowance account in respect of those debtors is reversed.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

Valuation of convertible bonds

The Directors use their judgement in selecting an appropriate valuation technique for the Group's convertible bonds which are not quoted in the active market. Valuation techniques commonly used by market practitioners are applied. The fair value of the Group's convertible bonds was valued using the binomial option pricing model (the "Model"). Details of the key inputs into the Model are disclosed in note 26. The fair value of convertible bonds varies with different variables of certain subjective assumptions. Any change in these variables so adopted may materially affect the estimation of the fair value of convertible bonds.

5. REVENUE/TURNOVER

Revenue, which is also the Group's turnover, derived from the Group's principal activities recognised during the year is as follows:

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Artiste management fee income	**24**	–	**–**	–	**24**	–
Network infrastructure and electrical installation services income	**5,446**	4,692	**–**	–	**5,446**	4,692
Service income from digital solution services	**24**	53	**–**	–	**24**	53
Income from publication of print media						
– Advertising income	**–**	–	**–**	6,423	**–**	6,423
– Sales of magazines	**–**	–	**1**	1,988	**1**	1,988
Sales of steam coal	**–**	–	**–**	2,340	**–**	2,340
	5,494	4,745	**1**	10,751	**5,495**	15,496

During the year, the Group's revenue from advertising barter transactions was nil (2008: HK$2,260,000).

The fair value of the advertising barter transactions is determined by reference to the non-barter transactions of similar advertising services that involves cash and occurs frequently with buyers not related to the counter-party in the barter transaction.

6. SEGMENT INFORMATION

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resources allocation and performance assessment, the Group is currently organised into the following three operating segments. No operating segments have been aggregated to form the following reportable segments.

Network infrastructure and electrical installation services	–	Provision of network infrastructure and electrical installation services
Digital solution services	–	Provision of information technology solutions including web solutions and system integration
Films production and distribution and artiste management	–	Production and distribution of films and provision of management services to artistes

Two operations (the energy consultancy services and energy resources procurement) discontinued in the current year (2008: one operation – the publication of print media) were reported as a separate business segments under the predecessor standard (HKAS 14 – Segment Reporting). The segment information reported in the following does not include any amounts for these discontinued operations, which are described in more details in note 10.

Segment information about the Group's reportable segments is presented below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

Segment revenues and results

The following is an analysis of the Group's revenue/turnover and results by reportable segments:

	Segment revenue		Segment profit/(loss)	
	2009	2008	**2009**	2008
	HK$'000	*HK$'000*	**HK$'000**	*HK$'000*
Network infrastructure and electrical installation services	**5,446**	4,692	**(572)**	(1,521)
Digital solution services	**24**	53	**8**	(49)
Films production and distribution and artiste management	**24**	–	**(588)**	–
Total for continuing operations	**5,494**	4,745	**(1,152)**	(1,570)
Other operating income			**265**	129
Gain on disposal of an associate			**388**	–
Unallocated corporate expenses			**(6,952)**	(12,183)
Finance costs			**(907)**	(964)
Loss before income tax from continuing operations			**(8,358)**	(14,588)

6. SEGMENT INFORMATION *(Continued)*

Segment revenues and results *(Continued)*

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2008: Nil).

Segment profit/(loss) represents the profit earned/(loss incurred) by each segment without allocation of central administration costs including directors' salaries, gain on disposal of subsidiaries and an associate, other operating income, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

	2009 HK$'000	2008 HK$'000
Segment assets		
Network infrastructure and electrical installation services	10,018	10,626
Digital solution services	46	146
Films production and distribution and artiste management	24,175	–
Total segment assets	34,239	10,772
Unallocated	7,140	7,061
Consolidated assets	41,379	17,833
Segment liabilities		
Network infrastructure and electrical installation services	(12,947)	(9,371)
Digital solution services	(810)	(102)
Films production and distribution and artiste management	(522)	–
Total segment liabilities	(14,279)	(9,473)
Unallocated	(16,651)	(68,623)
Consolidated liabilities	(30,930)	(78,096)

6. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities *(Continued)*

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets are allocated to reportable segments other than corporate assets. Goodwill is allocated to reportable segments as described in note 17; and

– all liabilities are allocated to reportable segments other than corporate liabilities.

Other segment information

	Impairment of trade and other receivables		Depreciation and amortisation		Additions to non-current assets	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Network infrastructure and electrical installation services	**360**	1,174	**47**	–	**205**	–
Digital solution services	**–**	–	**–**	–	**–**	–
Films production and distribution and artiste management	**–**	–	**–**	–	**–**	–
	360	1,174	**47**	–	**205**	–

Geographical information

The Group's operations are located in the PRC including Hong Kong (being the place of domicile of the major companies now comprising the Group) and Macau and its revenue/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.

Information about major customer

Included in revenues arising from provision of network infrastructure and electrical installation services are revenues of approximately HK$5,420,000 (2008: HK$2,362,000) which arose from rendering services to the Group's largest customer.

7. FINANCE COSTS

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest on secured bonds wholly repayable within five years and not stated at fair value through profit or loss	**97**	964	**–**	–	**97**	964
Interest on short-term borrowings	**810**	–	**–**	–	**810**	–
Interest on convertible bonds wholly repayable within five years	**–**	–	**1,612**	1,872	**1,612**	1,872
Others	**–**	–	**–**	2	**–**	2
	907	964	**1,612**	1,874	**2,519**	2,838

8. LOSS BEFORE INCOME TAX

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Loss before income tax is arrived at after charging/(crediting):						
Allowances for bad and doubtful debts in respect of:						
– Trade receivables	**360**	1,174	**646**	217	**1,006**	1,391
– Other receivables	**235**	85	**1,666**	–	**1,901**	85
Auditors' remuneration	**350**	480	**–**	–	**350**	480
Cost of goods sold	**–**	–	**–**	3,510	**–**	3,510
Write-off/loss on disposal of property, plant and equipment	**364**	529	**–**	61	**364**	590
Minimum lease payments under operating leases in respect of rented premises	**1,240**	1,565	**–**	25	**1,240**	1,590
Bank interest income	**–**	(105)	**–**	(25)	**–**	(130)

9. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group had no estimated assessable profits arising in or derived from Hong Kong for both years. PRC foreign enterprise income tax has not been provided as the PRC subsidiary incurred a loss for taxation purposes for both years.

Reconciliation between income tax expense and accounting (loss)/profit at applicable tax rates is as follows:

	2009 **HK$'000**	2008 HK$'000
(Loss)/Profit before income tax		
– Continuing operations	**(8,358)**	(14,588)
– Discontinued operations	**28,672**	(19,022)
	20,314	(33,610)
Tax at the applicable tax rates	**3,311**	(5,645)
Tax effect of non-deductible expenses	**2,433**	1,305
Tax effect of non-taxable revenue	**(6,231)**	(760)
Tax effect of unrecognised tax losses	**477**	5,145
Tax effect of utilisation of tax losses previously not recognised	**(31)**	–
Tax effect of temporary difference not recognised	**41**	(45)
Income tax expense	**–**	–

At the reporting date, the Group and the Company had unused estimated tax losses of approximately HK$176,807,000 (2008: HK$174,102,000) and approximately HK$44,971,000 (2008: HK$45,157,000) respectively, which was available for offsetting against future taxable profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Under the current tax legislation, the tax losses can be carried forward indefinitely.

At the reporting date, the Group and the Company did not have any significant unrecognised deferred tax liabilities (2008: Nil).

10. DISCONTINUED OPERATIONS

10.1 Disposal of energy consultancy and energy resources procurement operations

On 11 November 2009, the Company entered into a sale and purchase agreement with Forever Triumph Limited to dispose of its 100% equity interests in Vertex CDM Limited and its subsidiaries (the "Vertex CDM Group") which carried out all of the Group's provision of energy consultancy services and energy resources procurement, at a cash consideration of HK$200,000 (the "Disposal"). The Disposal was consistent with the Group's long-term strategy to focus its activities in the film production and artistes management services. The Disposal was completed on 11 November 2009, on which date control of the Vertex CDM Group passed to the acquirer. Details of the assets and liabilities disposed of, and the calculation of the profit or loss on Disposal, are disclosed in note 35. The Disposal constituted a related party transaction as disclosed in note 34.1.

10.2 Discontinuance of the publication of print media business

Pursuant to a written resolution passed on 15 December 2008, the board of directors of the Company resolved that the Group's publication of print media business be discontinued effective from 15 December 2008 in view of the continuing operating losses encountered and the world financial crisis.

The combined results of the discontinued operations (i.e. energy consultancy and energy resources procurement and the publication of print media business) (the "Discontinued Operations") included in the consolidated statement of comprehensive income and the consolidated statement of cash flows are set out below. The comparative loss and cash flows from the Discontinued Operations have been re-presented to include those operations classified as discontinued in the current year.

10. DISCONTINUED OPERATIONS *(Continued)*

	2009 HK$'000	2008 HK$'000
Profit/(Loss) for the year from the Discontinued Operations		
Revenue/Turnover (note 5)	1	10,751
Other operating income	99	105
Royalty and production costs	(6)	(7,317)
Direct operating and subcontracting costs	–	(6,755)
Staff costs	(54)	(5,812)
Depreciation of property, plant and equipment	–	(36)
Other operating expenses	(2,631)	(7,880)
Finance cost (note 7)	(1,612)	(1,874)
Change in fair value of convertible bonds (note 26)	(4,310)	1,596
Impairment loss on available-for-sale investments	–	(1,800)
Gain on disposal of subsidiaries (note 35)	37,185	–
Profit/(loss) before income tax	28,672	(19,022)
Income tax expense	–	–
Profit/(Loss) for the year from the Discontinued Operations, attributable to the owners of the Company	28,672	(19,022)
Cash flows generated from/(used in) Discontinued Operations		
Net cash generated from/(used in) operating activities	1,069	(1,150)
Net cash used in investing activities	–	(292)
Net cash used in financing activities	–	(1,875)
Net cash inflow/(outflow)	1,069	(3,317)

	2009 HK cents	2008 HK cents
Earnings/(Loss) per share		
– Basic, from the Discontinued Operations	3.26	(2.92)
– Diluted, from the Discontinued Operations	N/A	N/A

10. DISCONTINUED OPERATIONS *(Continued)*

The calculation of the basic earnings/(loss) per share attributable to the owners of the Company from the Discontinued Operations is based on the profit/(loss) for the year attributable to the owners of the Company of HK$28,672,000 (2008: loss of HK$19,022,000) and the weighted average number of 878,690,323 (2008: 651,982,548 as restated) ordinary shares in issue during the year as adjusted for the effect of the issuance of new shares pursuant to the open offer during the year and as if the event had occurred at the beginning of the earlier period reported.

Diluted earnings/(loss) per share for the years ended 31 December 2009 and 2008 from the Discontinued Operations have not been disclosed as the impact of the potential ordinary shares was anti-dilutive.

11. PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The consolidated profit/(loss) attributable to the owners of the Company for the year includes a loss of HK$1,695,000 (2008: HK$19,865,000) which has been dealt with in the financial statements of the Company.

12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The calculation of basic earnings/(loss) per share is based on the profit attributable to the owners of the Company of HK$20,314,000 (2008: loss of HK$33,610,000) and the weighted average of 878,690,323 (2008: 651,982,548 as restated) ordinary shares in issue during the year, as adjusted for the effect of the issuance of new shares pursuant to the open offer during the year and as if the event had occurred at the beginning of the earlier period reported.

Diluted earnings/(loss) per share for the years ended 31 December 2009 and 2008 have not been disclosed as the impact of the potential ordinary shares was anti-dilutive.

13. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	Continuing operations		Discontinued operations		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Salaries and allowances	**3,749**	7,237	**52**	5,612	**3,801**	12,849
Equity settled share-based payment expenses	**6**	14	**–**	–	**6**	14
Retirement benefit costs	**84**	204	**2**	200	**86**	404
	3,839	7,455	**54**	5,812	**3,893**	13,267

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

14.1 Directors' emoluments

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Year ended 31 December 2009				
Executive Directors				
Dr. Poon Kwok Lim, Steven[2]	38	302	–	340
Mr. Poon Shu Yan, Joseph	33	351	6	390
Mr. Li Sin Hung, Maxim[5]	11	86	3	100
Mr. Yum Pui[6]	11	83	3	97
Mr. Tang Yat Ming, Edward[8]	–	21	1	22
Independent Non-executive Directors				
Mr. Tam Tak Wah[4]	87	–	–	87
Mr. Tsui Yiu Wa, Alec[3]	67	–	–	67
Mr. Yeung Pak Sing[3]	67	–	–	67
Mr. Chan Tin Lup, Trevor[5]	18	–	–	18
Mr. Chui Chi Yun, Robert[5]	18	–	–	18
Mr. Lam Kwok Hing, Wilfred[7]	18	–	–	18
	368	843	13	1,224

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

14.1 Directors' emoluments *(Continued)*

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefit costs HK$'000	Total HK$'000
Year ended 31 December 2008				
Executive Directors				
Dr. Poon Kwok Lim, Steven[2]	100	1,208	7	1,315
Mr. Poon Shu Yan, Joseph	100	1,085	12	1,197
Mr. Mok Hay Hoi[1]	17	162	2	181
Independent Non-executive Directors				
Mr. Tam Tak Wah[4]	120	–	–	120
Mr. Tsui Yiu Wa, Alec[3]	200	–	–	200
Mr. Yeung Pak Sing[3]	200	–	–	200
	737	2,455	21	3,213

Note:

1. Resigned on 22 February 2008
2. Resigned on 19 May 2009
3. Retired on 30 April 2009
4. Resigned on 23 June 2009
5. Appointed on 13 May 2009
6. Appointed on 13 May 2009 and resigned on 16 December 2009
7. Appointed on 13 May 2009 and re-designated from Independent Non-executive Director to Non-executive Director on 3 February 2010
8. Appointed on 16 December 2009

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2009 and 2008.

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

14.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2008: two) directors whose emoluments are reflected in the analysis presented in note 14.1 above. The emoluments payable to the remaining three (2008: three) individuals during the year are as follows:

	2009 **HK$'000**	2008 HK$'000
Salaries and allowance	**1,269**	1,927
Retirement benefit costs	**28**	34
	1,297	1,961

Their emoluments were within the following band:

	Number of individuals	
	2009	2008
NIL to HK$1,000,000	**3**	3

During the year, no emoluments were paid by the Group to the Directors or the three (2008: three) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2008				
Cost	845	4,296	200	5,341
Accumulated depreciation	(404)	(3,602)	(107)	(4,113)
Net book amount	441	694	93	1,228
Year ended 31 December 2008				
Opening net book amount	441	694	93	1,228
Additions	353	121	–	474
Depreciation	(166)	(299)	(40)	(505)
Disposals	(415)	(179)	–	(594)
Exchange realignment	7	8	–	15
Closing net book amount	220	345	53	618
At 31 December 2008				
Cost	243	3,577	200	4,020
Accumulated depreciation	(23)	(3,232)	(147)	(3,402)
Net book amount	220	345	53	618
Year ended 31 December 2009				
Opening net book amount	**220**	**345**	**53**	**618**
Additions	**181**	**91**	**–**	**272**
Acquisition of subsidiaries (note 36)	**–**	**9**	**–**	**9**
Depreciation	**(96)**	**(163)**	**(40)**	**(299)**
Written off	**(232)**	**(132)**	**–**	**(364)**
Closing net book amount	**73**	**150**	**13**	**236**
At 31 December 2009				
Cost	**127**	**452**	**200**	**779**
Accumulated depreciation	**(54)**	**(302)**	**(187)**	**(543)**
Net book amount	**73**	**150**	**13**	**236**

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2008				
Cost	752	1,602	200	2,554
Accumulated depreciation	(337)	(1,153)	(107)	(1,597)
Net book amount	415	449	93	957
Year ended 31 December 2008				
Opening net book amount	415	449	93	957
Additions	307	45	–	352
Disposals	(311)	–	–	(311)
Depreciation	(128)	(212)	(40)	(380)
Closing net book amount	283	282	53	618
At 31 December 2008				
Cost	297	1,647	200	2,144
Accumulated depreciation	(14)	(1,365)	(147)	(1,526)
Net book amount	283	282	53	618
Year ended 31 December 2009				
Opening net book amount	**283**	**282**	**53**	**618**
Additions	**–**	**68**	**–**	**68**
Written off	**(233)**	**(122)**	**–**	**(355)**
Depreciation	**(50)**	**(163)**	**(40)**	**(253)**
Closing net book amount	**–**	**65**	**13**	**78**
At 31 December 2009				
Cost	**–**	**68**	**200**	**268**
Accumulated depreciation	**–**	**(3)**	**(187)**	**(190)**
Net book amount	**–**	**65**	**13**	**78**

16. INTERESTS IN SUBSIDIARIES

	2009 HK$'000	2008 HK$'000
Unlisted shares, at cost	32,606	23,606
Less: Provision for impairment	(23,606)	(23,606)
Financial guarantee granted to a subsidiary	–	709
	9,000	709

Particulars of the Company's subsidiaries at 31 December 2009 are as follows:

Name of subsidiary	Place of incorporation or registration	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Network Engineering Limited	Hong Kong	Ordinary HK$1,000,000	100%	–	Provision of network infrastructure and electrical installation services
Vertex Systems Services Limited	Hong Kong	Ordinary HK$2	100%	–	Inactive
VCTG Technology Limited	Hong Kong	Ordinary HK$2	100%	–	Provision of digital solution services
Great Wall Telecommunications Group Ltd.	British Virgin Islands	Ordinary US$157,844	100%	–	Investment holding
上海創一信息技術有限公司	PRC	Registered US$140,000	–	100%	Inactive
Vertex Media Ltd.	British Virgin Islands	Ordinary US$19,860	100%	–	Investment holding
VCTG Amonic Solutions (Macau) Limited	Macau	Ordinary MOP50,000	–	100%	Provision of digital solution services
Vertex Digital Media Limited	British Virgin Islands	Ordinary US$1	–	100%	Inactive

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation or registration	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
SinoWorld Media Company Limited	Hong Kong	Ordinary HK$5,165,000	–	80%	Investment holding
SinoWorld CNW Publishing Limited	Hong Kong	Ordinary HK$2,050,000	–	72%	Inactive
Vertex TRC Publishing Company Limited	Hong Kong	Ordinary HK$2	–	100%	Inactive
China Sports Enterprises Limited	Hong Kong	Ordinary HK$1	–	100%	Inactive
Gulf Pacific Services Limited	British Virgin Islands	Ordinary US$160,000	100%	–	Investment holding
China Hong Kong Power Engineering Company Limited	Hong Kong	Ordinary HK$1	100%	–	Provision of network infrastructure and electrical installation services
National Arts Entertainment Limited	Hong Kong	Ordinary HK$1,500,000	–	100%	Provision of artiste management services
National Arts Entertainment Holdings Limited	British Virgin Islands	Ordinary US$192,308	100%	–	Investment holding
National Arts Advertising & Promotions Limited	Hong Kong	Ordinary HK$1	–	100%	Provision of promotion services
National Arts Films Production Limited	Hong Kong	Ordinary HK$1,500,000	–	100%	Production and distribution of films

Note: The principal place of operation of all the above companies is in Hong Kong except for 上海創一信息技術有限公司 and VCTG Amonic Solutions (Macau) Limited which operate in the PRC and Macau respectively.

None of the subsidiaries had issued any listed securities at the reporting date.

17. GOODWILL

The Group

The main changes in the carrying amount of goodwill result from the acquisition of National Arts Entertainment Holdings Limited ("National Arts") and its subsidiaries (collectively referred to as the "National Arts Group"). The net carrying amount of goodwill can be analysed as follows:

	2009 HK$'000	2008 HK$'000
At 1 January		
Gross carrying amount	11,482	11,482
Accumulated impairment losses	(11,482)	(11,482)
	–	–

	2009 HK$'000	2008 HK$'000
Net carrying amount at 1 January	–	–
Acquisition of subsidiaries (note 36)	8,974	–
Net carrying amount at 31 December	8,974	–

	2009 HK$'000	2008 HK$'000
At 31 December		
Gross carrying amount	20,456	11,482
Accumulated impairment losses	(11,482)	(11,482)
	8,974	–

17. GOODWILL *(Continued)*

Impairment testing of goodwill

Goodwill acquired through business combination during the year had been allocated to film production and distribution cash-generating units (the "Film CGU"), which is a reportable segment, for impairment testing.

The recoverable amount of the Film CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period with a growth rate approved by senior management, which is based on the management's expectation for market development. The discount rate applied to the cash flow projections is 3%.

Key assumptions were used in the value-in-use calculation of the Film CGU and the following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budget gross margins – the basis used to determine the value assigned to the budgeted gross margins is the expected gross margins achieved in the same industry, increase for expected efficiency improvement, and expected market development.

Discount rates – The discount rate used is before tax.

18. DISPOSAL OF AN ASSOCIATE

The Group

On 8 April 2009, the Group entered into a sale agreement with Sino East Oil Company Limited, a company controlled by Dr. Poon Kwok Lim, Steven ("Dr. Poon"), who was the Chairman and an executive director of the Company up to 19 May 2009, to dispose of the Group's 50% equity interests in Sino East Oil Services Limited (the "Associate") at a consideration of US$50,000 (equivalent to approximately HK$388,000), satisfied by cash in full. The disposal of the Associate was completed on 9 April 2009 and the net carrying amount of the Associate as at that date was nil, resulting in a gain on disposal of HK$388,000. The disposal of the Associate constituted a related party transaction as disclosed in note 34.1.

19. FILM PRODUCTION IN PROGRESS

The Group

	2009 HK$'000	2008 HK$'000
At 1 January	–	–
Additions	14,691	–
At 31 December	14,691	–

20. TRADE RECEIVABLES

The Group

	2009 HK$'000	2008 HK$'000
Trade receivables	11,748	13,513
Less: Allowances for bad and doubtful debts	(2,167)	(1,425)
	9,581	12,088

The Group generally allows a credit period from 60 to 90 days to its trade customers. The following is the ageing analysis of trade receivables, net of allowances for bad and doubtful debts, at the reporting date:

The Group

	2009 HK$'000	2008 HK$'000
0 to 60 days	573	610
61 to 90 days	–	104
91 to 180 days	11	1,193
Over 180 days	8,997	10,181
	9,581	12,088

20. TRADE RECEIVABLES *(Continued)*

Included in the balances are debtors with carrying amounts of approximately HK$9,008,000 (2008: HK$11,374,000) which are past due at the reporting date for which the Group has not provided for impairment loss. Trade receivables that are past due but not impaired relate to a number of customers and the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The Directors considered that the fair values of trade receivables are not materially different from their carrying amounts because these amounts have short maturity periods at their inception.

The following is the ageing of trade receivables which are past due but not impaired:

The Group

	2009 HK$'000	2008 HK$'000
91 to 180 days	**11**	1,193
Over 180 days	**8,997**	10,181
	9,008	11,374

The following is the movement in the allowances for bad and doubtful debts:

The Group

	2009 HK$'000	2008 HK$'000
At 1 January	**1,425**	175
Impairment loss recognised	**1,006**	1,391
Amounts written off	**(264)**	(141)
At 31 December	**2,167**	1,425

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$2,167,000 (2008: HK$1,425,000) with a carrying amount before provision of HK$11,660,000 (2008: HK$9,996,000). The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments.

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables.

21. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand (notes (a) and (c))	**6,277**	1,613	**3,342**	840
Pledged bank deposits (note (b))	**200**	200	**–**	–
	6,477	1,813	**3,342**	840
Less: Pledged bank deposits (note (b))	**(200)**	(200)	**–**	–
Cash and cash equivalents	**6,277**	1,613	**3,342**	840

Notes:

(a) Cash at banks earn interest at the floating rates based on the daily bank deposits rates.

(b) The Group's bank deposits of HK$200,000 (2008: HK$200,000) were pledged against issuance of performance bonds (note 39) in respect of certain engineering projects. The pledged bank deposits earned interest at a fixed rate of 1% (2008: 1%) per annum and had maturity period of less than one month (2008: same).

(c) At 31 December 2009, the Group and the Company did not have any cash and bank balances which was denominated in Renminbi ("RMB"). At 31 December 2008, included in cash at banks and in hand of the Group was HK$240,000 of bank balances denominated in RMB placed with banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

22. TRADE PAYABLES

The following is the ageing analysis of trade payables at the reporting date:

The Group

	2009 HK$'000	2008 HK$'000
0 to 30 days	395	560
31 to 60 days	48	597
61 to 90 days	–	473
91 to 180 days	184	1,543
Over 180 days	10,599	9,291
	11,226	12,464

23. AMOUNTS DUE TO RELATED COMPANIES

The Group and The Company

The amounts due represent advances from Bright World Enterprise Limited and Forever Triumph Limited, in which Dr. Poon has a beneficial interest and Dr. Poon and Mr. Poon Shu Yan, Joseph are also directors of the related companies.

At 31 December 2009, the amounts due are unsecured, interest-free and repayable on demand. At 31 December 2008, except for the amount of HK$8,381,000 which was unsecured, interest-free and not repayable within the next twelve months from the reporting date, the remaining amounts due were unsecured, interest-free and repayable on demand.

24. AMOUNTS DUE FROM SUBSIDIARIES

The Company

	2009 HK$'000	2008 HK$'000
Amounts due from subsidiaries	**114,660**	111,364
Less: Provision for impairment	**(106,560)**	(106,560)
	8,100	4,804

During the year, the Directors reviewed the carrying value of the amounts due from subsidiaries with reference to the business operated by these subsidiaries. No impairment loss (2008: HK$20,851,000) was recognised in the Company's profit or loss during the year.

The amounts due are unsecured, interest-free and repayable on demand.

25. AMOUNTS DUE TO SUBSIDIARIES

The amounts due are unsecured, interest-free and repayable on demand.

26. CONVERTIBLE BONDS

In March 2006, Coastal Power Company Limited ("CPCL"), a former subsidiary of the Company which was disposed of during the year ended 31 December 2009, issued bonds in the principal amount of US$4,000,000 (equivalent to approximately HK$31,199,000) to LIM Asia Multi-Strategy Fund Inc. (the "LIM Fund") with a maturity date due on 31 March 2011 (the "Convertible Bonds"). The Convertible Bonds will, at the option of the 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 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.

26. CONVERTIBLE BONDS *(Continued)*

The functional currency of CPCL is HK$ and the conversion option of the Convertible Bonds is denominated in US$. As the conversion price for the Convertible Bonds is subject to change, the conversion will not result in settlement by the exchange of a fixed number of equity instruments. Therefore, upon application of HKAS 32 and HKAS 39, the Group determined that the Convertible Bonds do not contain any equity component and the entire Convertible Bonds are designated as "financial liabilities at fair value through profit or loss" which require the Convertible Bonds to be carried at fair value at the reporting date with the changes in fair value being recognised in profit or loss.

CPCL, being a company under Vertex CDM Group, was disposed of during the year (see note 10.1), the fair value of the Convertible Bonds at the date of completion of the Disposal was calculated using the Model and the inputs into the Model were as follows:

Stock price	US$12.9
Stock borrowing cost	12.86%
Expected volatility	32.69%
Expected dividend yield	4.89%
Issuer's credit spread	12.14%

Movement of the carrying amount of the Convertible Bonds is set out below:

The Group

	2009	2008
	HK$'000	HK$'000
At 1 January	**31,403**	32,999
Change in fair value recognised in profit or loss	**4,310**	(1,596)
Disposal of subsidiaries (note 35)	**(35,713)**	–
At 31 December	**–**	31,403

27. BONDS, SECURED

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

The Company had 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 was insignificant.

The Bonds, which were transferable, bore a coupon of 2%, per annum which was payable biannually on the last business day in June and December of each year and matured on 27 February 2009. The Company might, at any time by giving 30 days prior notice to the bondholders, redeem the Bonds prior to the maturity date. The bondholders had no right to request for early repayment.

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

The warrants entitled the bondholders 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 contained a liability element and an equity element which were required to be separately accounted for in accordance with HKAS 32. An effective rate of 6.4% p.a. was used to determine the fair value of the liability element at initial recognition.

On 12 February 2009, the Company repaid the principal amount together with the accrued interest of the Bonds of approximately HK$15,663,000. Movement of the carrying amount of the Bonds is set out below:

The Group and the Company

	2009 **HK$'000**	2008 HK$'000
Liability component at 1 January	**15,566**	14,914
Interest charged (note 7)	**97**	964
Repayment of principal and interest/Interest paid	**(15,663)**	(312)
Liability component at 31 December	**–**	15,566

28. SHARE CAPITAL

	Number of shares		Share capital	
	2009	2008	**2009**	2008
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1 January and **31 December**	**60,000,000**	60,000,000	**600,000**	600,000
Issued and fully paid:				
At 1 January	**615,090**	614,885	**6,151**	6,149
Exercise of share options	**–**	205	**–**	2
Shares issued under share placements (note (a))	**219,000**	–	**2,190**	–
Shares issued under an open offer (note (b))	**355,545**	–	**3,555**	–
At 31 December	**1,189,635**	615,090	**11,896**	6,151

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 32.

Warrants

At the reporting date, the Company had no outstanding (2008: 25,000,000) warrants. The outstanding warrants as at 31 December 2008 lapsed in February 2009 following the repayment of the Bonds, details of which are set out in note 27.

Notes:

(a) On 28 April 2009, the Company entered into a placing agreement to place 96,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.073 each (the "First Placing"). The First Placing was completed on 8 May 2009.

On 5 November 2009, the Company entered into another placing agreement to place 123,000,000 new ordinary shares of HK$0.01 each at a price of HK$0.108 each (the "Second Placing"). The Second Placing was completed on 13 November 2009.

(b) On 25 June 2009, the Company proposed to raise funds by way of an open offer (the "Open Offer") of 355,545,116 offer shares at a subscription price of HK$0.09 per offer share on the basis of one offer share for every two existing shares of the Company. The Open Offer became unconditional on 3 August 2009.

29. RESERVES

The Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 of the consolidated financial statements.

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the shares of the Company issued in exchange for the shares of the acquired subsidiaries under the reorganisation.

The Company

	Share premium HK$'000	Capital reserve HK$'000	Warrant reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2008	116,519	2,787	1,750	2,265	(151,927)	(28,606)
Exercise of share options	29	–	–	–	–	29
Employee share-based compensation	–	–	–	14	–	14
Loss for the year	–	–	–	–	(19,865)	(19,865)
At 31 December 2008 and 1 January 2009	116,548	2,787	1,750	2,279	(171,792)	(48,428)
Employee share-based compensation	–	–	–	6	–	6
Transfer of lapsed warrants to accumulated losses	–	–	(1,750)	–	1,750	–
Shares issued under share placements	18,102	–	–	–	–	18,102
Shares issued under an open offer	28,444	–	–	–	–	28,444
Shares issue expenses	(1,898)	–	–	–	–	(1,898)
Loss for the year	–	–	–	–	(1,695)	(1,695)
At 31 December 2009	**161,196**	**2,787**	**–**	**2,285**	**(171,737)**	**(5,469)**

29. RESERVES *(Continued)*

The Company

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

The capital reserve of the Company arose as a result of the reorganisation and represents the excess of the combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, this reserve is available for distributions or dividends to shareholders provided that immediately following the distribution of dividend, the Company is also able to pay its debts as they fall due in the ordinary course of business. In accordance with the Articles of Association of the Company, with the sanction of an ordinary resolution, dividends may also be declared and paid out of the capital reserve.

The warrant reserve of the Group and the Company arose as a result of the issuance of Bonds as set out in note 27. The warrant reserve represents the value of equity element of the Bonds on initial recognition. As the outstanding warrants as at 31 December 2008 lapsed in February 2009 following the repayment of the Bonds, the balance is transferred to accumulated losses during the year ended 31 December 2009.

30. OPERATING LEASE COMMITMENTS

At the reporting date, the Group and the Company had the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

The Group

	2009 **HK$'000**	2008 HK$'000
Within one year	**467**	727
In the second to fifth years inclusive	**146**	1,125
	613	1,852

30. OPERATING LEASE COMMITMENTS *(Continued)*

The Company

	2009 HK$'000	2008 HK$'000
Within one year	227	692
In the second to fifth years inclusive	146	1,125
	373	1,817

The Group and the Company lease a number of rented premises under operating leases. Leases are negotiated for a term of one to two years and none of the leases include contingent rentals.

31. CAPITAL COMMITMENTS

The Group

At 31 December 2009, the Group had the following capital commitments:

	2009 HK$'000	2008 HK$'000
Contracted but not provided for in respect of investment in equity interests	–	1,500

The Company

At 31 December 2009, the Company had no significant capital commitment (2008: Nil).

32. SHARE-BASED EMPLOYEE COMPENSATION

As at 31 December 2009, the Group maintained two share options schemes for employee compensation as set out below.

32.1 Post initial public offering share option scheme

The post initial public offering share option scheme ("Post-IPO Option Scheme") was conditionally approved by a resolution of the sole shareholder dated 22 July 2002 (the "Effective Date"). Major terms of this scheme are summarised as follows:

(i) The Post-IPO Option Scheme enables the Company to grant share options to selected persons as incentives or rewards for their contribution to the Group.

(ii) The participants of the Post-IPO Option Scheme include any employee, director, advisor and consultant, supplier, customer and shareholder of any member of the Group as well as any provider of financial assistance to any member of the Group.

(iii) HK$1 is payable by the grantee to the Company on acceptance of the share option offer. The share option offer will be offered for acceptance for a period of 14 days from the date on which the offer is granted.

(iv) Share options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise as the board of directors of the Company may determine, provided such terms and conditions shall not be inconsistent with any other terms and conditions of the Post-IPO Option Scheme. The grantees are not required to hold any share options or any shares allotted pursuant to any share options for any minimum period.

(v) The subscription price for the shares under the Post-IPO Option Scheme will be determined by the board of directors of the Company and notified to each grantee and will be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the share option, which must be a business day, (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant and (c) the nominal value of a share.

(vi) The limit on the number of shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Post-IPO Option Scheme and other share option schemes must not exceed 30% of the shares in issue from time to time.

32. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

32.1 Post initial public offering share option scheme *(Continued)*

(vii) The total number of shares which may be issued upon exercise of all share options to be granted under the Post-IPO Option Scheme and any other share option schemes must not in aggregate exceed 10% of the shares in issue as at 17 October 2002, amounting to 49,219,623 shares (the "Scheme Mandate Limit"). The Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval. However, the Scheme Mandate Limit as renewed must not exceed 10% of the shares in issue as at the date of the aforesaid shareholders' approval.

(viii) The total number of shares issued and to be issued upon exercise of the share options granted under the Post-IPO Option Scheme to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue from time to time. Any further grant of share options to such grantee which would result in the shares issued and to be issued upon exercise of all share options granted and to be granted to such grantee (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, must be subject to shareholders' approval with such grantee and his associates abstaining from voting.

(ix) A share option may be exercised in accordance with the terms of the Post-IPO Option Scheme at any time during the period notified by the board of directors of the Company to each grantee provided that the period within which the share option must be exercised shall not be more than 10 years from the date of grant of the share option.

(x) The Post-IPO Option Scheme remains valid for a period of 10 years commencing on the Effective Date. In addition, the Company may, by ordinary resolution in general meeting or the board of directors of the Company may at any time terminate the operation of the Post-IPO Option Scheme. Share options which are granted during the life of the Post-IPO Option Scheme may continue to be exercisable in accordance with their terms of issue.

32. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

32.2 Pre-initial public offering share option scheme

The purpose of the pre-initial public offering share option scheme ("Pre-IPO Option Scheme") is to recognise the contribution of certain directors, employees, advisors and consultants of the Company to the growth of the Company and/or to the listing of the Company's shares on the GEM. The principal terms of the Pre-IPO Option Scheme, which conditionally approved by a written resolution of the sole shareholder dated 22 July 2002, are substantially the same as the terms of the Post-IPO Option Scheme except that:

(i) the subscription price per share ranged from HK$0.113 to HK$0.425 (as adjusted for the Open Offer), depending on the employment period of the grantee and/or the grantee's contribution to the Group;

(ii) total number of shares subject to the Pre-IPO Option Scheme is 1,416,942 (2008: 1,421,178 (as adjusted for the Open Offer)) equivalent to approximately 0.12% (2008: 0.22%) of the issued share capital of the Company as of the reporting date;

(iii) save for the share options which were granted on 24 July 2002, no further share options would be offered or granted under the Pre-IPO Option Scheme, as the right to do so ended on 9 October 2002;

(iv) no share option granted under the Pre-IPO Share Option Scheme can be exercised before 17 October 2003; and

(v) the Pre-IPO Option Scheme contains no provisions on (a) the granting of share options to connected persons (as defined in the GEM Listing Rules); (b) the restrictions of the total number of shares which may be issued upon exercise of all the share options to be granted; and (c) the maximum entitlement of a grantee under the Pre-IPO Option Scheme.

As at 31 December 2009, the share options to subscribe for an aggregate of 1,416,942 (2008: 1,421,178 (as adjusted for the Open Offer)) shares of the Company at a subscription price ranging from HK$0.113 to HK$0.425 (as adjusted for the Open Offer) were granted by the Company to the Directors, advisors and consultants and employees under the Pre-IPO Option Scheme each for HK$1 and in return for each of the grantee's surrender of their share options previously granted by SAR1 under a share option scheme for subscription of shares in SAR1. A portion of each grantee's right to exercise the share option that has been granted under the Pre-IPO Option Scheme was deemed to have vested on 17 June 2002 and the rest of the right shall continue to vest over a period of not more than 4 years from 17 June 2002 on a monthly basis each time for 1/48th of the total number of shares comprised in the share option and, subject to that no share option granted under the Pre-IPO Option Scheme can be exercised before 17 October 2003, any vested right shall remain exercisable on or before 23 July 2012.

32. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

No share options were granted under the Post-IPO Option Scheme in the current and prior years.

The following table discloses movements of the Company's share options held by the Directors, employees as well as advisors and consultants. The weighted average exercise price and the number of share options disclosed below have been adjusted for the effect of the Open Offer, where appropriate:

	Number of share options					
	Outstanding at 1 January 2009	Granted during the year	Exercised during the year	Lapsed during the year Note (a)	Adjusted upon Open Offer	Outstanding at 31 December 2009
Option type						
Pre-IPO Option Scheme	1,421,178	–	–	(4,236)	–	1,416,942
Post-IPO Option Scheme	13,113,900	–	–	(6,759,900)	–	6,354,000
	14,535,078	–	–	(6,764,136)	–	7,770,942
Exercisable at the end of the year						7,770,942
Weighted average exercise price	HK$0.48	–	–	–	–	HK$0.48

	Number of share options					
	Outstanding at 1 January 2008	Granted during the year	Exercised during the year Note (b)	Lapsed during the year Note (a)	Adjusted upon Open Offer	Outstanding at 31 December 2008
Option type						
Pre-IPO Option Scheme	1,350,000	–	–	(8,000)	79,178	1,421,178
Post-IPO Option Scheme	13,820,000	–	(205,000)	(1,215,000)	713,900	13,113,900
	15,170,000	–	(205,000)	(1,223,000)	793,078	14,535,078
Exercisable at the end of the year						14,433,078
Weighted average exercise price	HK$0.51	–	HK$0.15	HK$0.51	–	HK$0.48

32. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Notes:

(a) These options were lapsed when the employee resigned and left the Group.

(b) The closing price of the Company's shares immediately before the date on which the share options were exercised was HK$0.21.

The Company has used the Black-Scholes option pricing model (the "BS Model") to value the share options granted since 1 January 2005, upon the first-time application of HKFRS 2. The BS Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

The fair value of the outstanding share options granted after 1 January 2005, under the Post-IPO Option Scheme, on 10 November 2006, measured at the date of grant, was approximately HK$1,934,000. The following significant assumptions were used to derive the fair value, using the BS Model:

Share price at date of grant	HK$0.51
Exercise price (note (a))	HK$0.49
Expected volatility (note (b))	8%
Expected life of option (note (c))	10 years
Risk-free interest rate (note (d))	3.9%
Expected dividend yield	Nil

Notes:

(a) The exercise price of the share options disclosed above have been adjusted from HK$0.52 to HK$0.49 for the effect of the Open Offer which became unconditional on 3 August 2009.

(b) Expected volatility: being the approximate historical volatility of closing prices of the share of the company in the past one year immediately before the date of grant.

(c) Expected life of option: being the period of 10 years commencing on the date of grant.

(d) Risk-free interest rate: being the approximate yields of 10-year Hong Kong Exchange Fund Notes traded on the date of grant, matching the expected life of each option.

In the current year, the Group recognised share option expenses of HK$6,000 (2008: HK$14,000) in profit or loss in relation to share options granted to the employees by the Company, with a corresponding adjustment recognised in the Group's share option reserve.

33. FINANCIAL GUARANTEE CONTRACTS

In connection with the issuance of the Convertible Bonds by CPCL, as set out in note 26, the Company executed a guarantee (the "Guarantee") in favour of the bondholder (the "Investor") and pursuant to which, the Company agreed irrevocably to guarantee and indemnify the Investor the due and punctual discharge of the guaranteed obligations (the "Guaranteed Obligations"). The Guaranteed Obligations represents the amount of approximately HK$33,402,000 and all obligations (whether actual or contingent) which are or may at any time be required to be performed (including, without limitation, the payment of any monies due, owing or payable) by CPCL in favour of or to the Investor.

On 12 February 2009, the Company reached an agreement with the Investor on the Guarantee and the Investor terminated the Guarantee and unconditionally released and discharged the Company from all of the Company's obligations and liabilities existing or arising under the Guarantee. Details of the release of the Guarantee are set out in the Company's announcement dated 12 February 2009.

The carrying amount of the financial guarantee contract recognised in the Company's statement of financial position in accordance with HKAS 39 is as follows:

	2009 HK$'000	2008 HK$'000
Total carrying amount at reporting date	–	412
Less: Amount shown as current liabilities	–	(174)
Amount shown as non-current liabilities	–	238

As at 31 December 2008, the financial guarantee contract was eliminated on consolidation.

34. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties during the year:

34.1 Transactions with a shareholder

As set out in note 10.1 and note 18 respectively, the Disposal and the disposal of the Associate constituted related party transactions as the respective purchaser are controlled by Dr. Poon, a shareholder of the Company who resigned as a director of the Company on 19 May 2009. Dr. Poon is the father of Mr. Poon Shu Yan, Joseph, executive director and chief executive officer of the Company.

34.2 Compensation of key management personnel of the Group

The Directors are of the opinion that the key management personnel were the executive directors of the Company, details of whose emoluments are set out in note 14.1.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Disposal of subsidiaries – Vertex CDM Group

	HK$'000
Net liabilities disposed of:	
Prepayments, deposits and other receivables	116
Cash and cash equivalents	224
Other payables and accruals	(1,612)
Convertible Bonds (note 26)	(35,713)
	(36,985)
Gain on disposal of subsidiaries	37,185
Consideration satisfied by cash	200

An analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	HK$'000
Cash consideration received	200
Cash and cash equivalents disposed of	(224)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(24)

36. BUSINESS COMBINATIONS

In October 2009, the Group acquired 100% of the issued shares of National Arts from independent third parties (the "Acquisition"). National Arts Group is engaged in film production and the provision of artiste management services.

Details of the net assets acquired and goodwill arising from the Acquisition are as follow:

	HK$'000
Purchase consideration – cash paid	9,000
Fair value of net assets acquired (see below)	(26)
Goodwill (note 17)	8,974

36. BUSINESS COMBINATIONS *(Continued)*

The fair values of the identifiable assets and liabilities of National Arts Group acquired and the corresponding carrying amounts immediately before the Acquisition were as follows:

	Fair value	Acquiree's carrying amount
	HK$'000	HK$'000
Cash and cash equivalents	956	956
Property, plant and equipment (note 15)	9	9
Trade receivables	16	16
Trade payables	(182)	(182)
Other payables and accruals	(773)	(773)
	26	26

The net assets of National Arts Group are carried at amounts not materially different from their fair values as at the date of acquisition and the reporting date.

The goodwill is attributable to the value of the assembled workforce of National Arts Group which cannot be recognised as an intangible asset under HKAS 38 – Intangible Assets, the profitability of the new business and the future significant operating synergies expected to arise after the Group's Acquisition. Goodwill has been allocated to cash-generating units at 31 December 2009, and is attributable to the film production and distribution and artiste management segment.

An analysis of the net outflow of cash and cash equivalents in respect of the Acquisition is as follows:

	HK$'000
Purchase consideration settled in cash	9,000
Cash and cash equivalents acquired	(956)
Net cash outflow in respect of the Acquisition	8,044

If the Acquisition had occurred at the beginning of the year (i.e. 1 January 2009), the Group's revenue would have been HK$5,808,000 and profit after tax would have been HK$18,841,000 for the year ended 31 December 2009. This pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

Since the Acquisition, National Arts Group contributed revenues of HK$24,000 and loss of HK$588,000 to the consolidated profit of the Group for the year ended 31 December 2009.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from its operating, investing and financing activities. The Group's major financial instruments include convertible bonds, secured bonds, amounts due to related companies, trade receivables, trade payables and cash and cash equivalents. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies applied by the Group to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner.

37.1 Categories of financial assets and liabilities

The carrying amounts of the Group's and the Company's financial assets and liabilities recognised at the reporting date may also be categorised as follows. See notes 3.11 and 3.17 for explanations on how the category of financial instruments affects their subsequent measurement.

Financial assets – The Group

	2009	2008
	HK$'000	HK$'000
Loans and receivables		
– Trade receivables	**9,581**	12,088
– Deposits and other receivables	**916**	815
– Pledged bank deposits	**200**	200
– Cash and cash equivalents	**6,277**	1,613
	16,974	14,716

Financial assets – The Company

	2009	2008
	HK$'000	HK$'000
Loans and receivables		
– Deposits and other receivables	**150**	404
– Amounts due from subsidiaries	**8,100**	4,804
– Cash and cash equivalents	**3,342**	840
	11,592	6,048

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

37.1 Categories of financial assets and liabilities *(Continued)*

Financial liabilities – The Group

	2009 **HK$'000**	2008 HK$'000
Financial liabilities as at fair value through profit or loss		
– Convertible bonds	**–**	31,403
Financial liabilities measured at amortised cost		
– Trade payables	**11,226**	12,464
– Other payables and accruals	**3,440**	3,393
– Amounts due to related companies	**16,256**	15,262
– Bonds, secured	**–**	15,566
	30,922	46,685

Financial liabilities – The Company

	2009 **HK$'000**	2008 HK$'000
Financial liabilities measured at amortised cost		
– Other payables and accruals	**872**	1,479
– Amounts due to related companies	**12,603**	15,262
– Amounts due to subsidiaries	**1,088**	17,275
– Bonds, secured	**–**	15,566
	14,563	49,582

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

37.2 Currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain trade receivables and payables of the Group and the secured bonds and the convertible bonds issued by the Group are denominated in either RMB or United States dollars ("US$"). The Group currently does not have a foreign currency hedging policy as the Directors considered that the volatility of the exchange rates between HK$, RMB and US$ is limited. However, the Directors monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

37.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The interest rates and terms of repayment of the Convertible Bonds and the secured bonds are disclosed in notes 26 and 27 respectively. The Group has no borrowing which bears floating interest rates. The Group does not have significant exposure to the risk of changes in interest rates as the Group does not have long-term receivables or debts which are subject to floating interest rate. The Group currently does not have any interest rate hedging policy, however, the Directors monitor interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

37.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective financial assets as stated in the consolidated statement of financial position. To minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

Majority of the Group's bank balances are deposited with banks in Hong Kong and the Group has limited the exposure to any single financial institution. The credit risk on liquid funds is limited because the counterparties are banks with good credit-rating.

Credit risk is concentrated as 84% (2008: 67%) of the total trade receivables are due from the Group's largest customer within the network infrastructure and electrical installation services business segment. However, the management of the Group closely monitors the progress of collecting the payments from the customers and reviews the overdue balances regularly. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

37.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. In the management of liquidity risk, the Directors monitor and maintain a level of cash and cash equivalents deemed adequate to finance the Group's operations and to meet its debt obligations as they fall due. The Group finances its working capital requirements mainly by the funds obtained from the issuance of equity instruments.

At the reporting date, the maturity profile of the Group's and the Company's financial liabilities based on contractual undiscounted payments was as follows:

The Group

	On demand or within 1 year HK$'000	In the second year HK$'000	Over 2 but less than 5 years HK$'000
At 31 December 2009			
Trade and other payables	**14,666**	**–**	**–**
Amounts due to related companies	**16,256**	**–**	**–**
	30,922	**–**	**–**
At 31 December 2008			
Trade and other payables	15,857	–	–
Amounts due to related companies	6,881	8,381	–
Bonds, secured	15,566	–	–
Convertible bonds	–	–	41,751
	38,304	8,381	41,751

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

37.5 Liquidity risk *(Continued)*

The Company

	On demand or within 1 year HK$'000	In the second year HK$'000	Over 2 but less than 5 years HK$'000
At 31 December 2009			
Other payables and accruals	**872**	**–**	**–**
Amounts due to related companies	**12,603**	**–**	**–**
Amounts due to subsidiaries	**1,088**	**–**	**–**
	14,563	**–**	**–**
At 31 December 2008			
Other payables and accruals	1,479	–	–
Amounts due to related companies	6,881	8,381	–
Amounts due to subsidiaries	17,275	–	–
Bonds, secured	15,566	–	–
	41,201	8,381	–

37.6 Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

38. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

(a) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders and other stakeholders;

(b) to support the Group's stability and growth; and

(c) to provide capital for the purpose of strengthening the Group's risk management capability.

38. CAPITAL MANAGEMENT *(Continued)*

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group currently does not adopt any formal dividend policy. The capital structure of the Group comprises only ordinary shares amounted to approximately HK$11,896,000 (2008: HK$6,151,000).

The gearing ratio at the reporting date is as follows:

	2009 **HK$'000**	2008 HK$'000
Total debts		
– Bonds, secured	**–**	15,566
– Convertible bonds	**–**	31,403
	–	46,969

	2009 **HK$'000**	2008 HK$'000
Total assets		
– Non-current assets	**9,210**	854
– Current assets	**32,169**	16,979
	41,379	17,833

	2009	2008
Gearing ratio	**–**	263%

At 31 December 2009, the Group's gearing ratio dropped to nil following the repayment of the secured bonds (note 27) and the disposal of the Convertible Bonds (note 26) during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirement.

39. CONTINGENT LIABILITIES

Pursuant to an agreement to provide engineering services entered into between Network Engineering Limited ("NEL"), a wholly-owned subsidiary of the Company, and a contractor in Hong Kong (the "Contractor") during the year. NEL offered performance bonds of HK$200,000 in favor of the Contractor for the due performance under the agreement. The Directors, on the basis of work schedule, consider that it is not necessary to make a provision for in the consolidated financial statements.

40. COMPARATIVES

As further explained in note 10, the comparative consolidated statement of comprehensive income and its corresponding notes have been represented in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" as if the operations discontinued during the current year had been discontinued at the beginning of the comparative period.

41. SUBSEQUENT EVENTS

41.1 Open offer

On 29 January 2010, the Company proposed to raise not less than approximately HK$107.07 million and not more than approximately HK$107.77 million before expenses by way of an open offer of not less than 3,568,906,044 offer shares and not more than 3,592,218,870 offer shares at price of HK$0.03 per share, payable in full upon application, on the basis of three offer shares for every one share held by the qualifying shareholders on the record date (the "2010 Open Offer"). The 2010 Open Offer was approved at the extraordinary general meeting of the Company on 15 March 2010 and the latest time for the 2010 Open Offer to become unconditional will be on 12 April 2010 in accordance with the expected timetable of the 2010 Open Offer. Details of the 2010 Open Offer are set out in the Company's circular dated 19 February 2010 and the Company's prospectus date 18 March 2010.

41.2 Change of Company name

On 15 March 2010, a special resolution was passed at the extraordinary general meeting of the Company to approve the change of the Company name from "Vertex Group Limited" to "National Arts Holdings Limited" and the new Chinese name "國藝控股有限公司" will be adopted to replace "慧峰集團有限公司". As at the date of approval of these consolidated financial statements, the Company is in the process of carrying out the necessary filing procedures with the Registrar of Companies in Hong Kong and the change of the Company name shall take effect from the date on which the new name of the Company be entered by the Registrar of Companies in Hong Kong into the register of companies in place of the existing name.

Financial Summary

A summary of the financial results and the assets, liabilities and equity of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below. This summary does not form part of the audited financial statements.

FINANCIAL RESULTS

	2009 **HK$'000**	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
Revenue/Turnover					
– Continuing operations	**5,494**	4,745	11,331	539	1,316
– Discontinued operations	**1**	10,751	14,692	15,278	10,720
Revenue/Turnover	**5,495**	15,496	26,023	15,817	12,036
Profit/(Loss) before income tax	**20,314**	(33,610)	(25,033)	(27,498)	(17,760)
Income tax expense	**–**	–	–	–	–
Profit/(Loss) for the year	**20,314**	(33,610)	(25,033)	(27,498)	(17,760)
Attributable to:					
Owners of the Company	**20,314**	(33,610)	(25,033)	(27,330)	(17,728)
Minority interests	**–**	–	–	(168)	(32)
	20,314	(33,610)	(25,033)	(27,498)	(17,760)

ASSETS, LIABILITIES AND EQUITY

	2009 **HK$'000**	2008 HK$'000	2007 HK$'000	2006 HK$'000	2005 HK$'000
Total assets	**41,379**	17,833	40,825	55,518	20,742
Total liabilities	**(30,930)**	(78,096)	(67,590)	(57,514)	(37,034)
	10,449	(60,263)	(26,765)	(1,996)	(16,292)
Equity attributable to the owners of the Company	**10,449**	(60,263)	(26,765)	(1,996)	(16,460)
Minority interests	**–**	–	–	–	168
	10,449	(60,263)	(26,765)	(1,996)	(16,292)

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the "Meeting") of Vertex Group Limited (the "Company") will be held at Boardroom, Wharney Guang Dong Hotel, 57-73 Lockhart Road, Wanchai, Hong Kong on Monday, 3 May 2010 at 10:30 a.m. for the following purposes:–

1. to receive and consider the audited financial statements of the Company for the year ended 31 December 2009 together with the reports of the board of directors of the Company (the "Board") and the auditors of the Company;

2. to re-elect directors of the Company (the "Directors") and authorise the Board to fix the Directors' remuneration;

3. to re-appoint the auditors of the Company and authorise the Board to fix their remuneration;

4. to consider as special business and, if thought fit, pass, with or without modification, the following resolution as an ordinary resolution:

   "**THAT**:

   (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertibles into shares of the Company) which might require the exercise of such power be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertibles into shares of the Company) which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted or issued (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to any officers and/or other participants of such scheme or arrangement of shares or rights to acquire shares of the Company; or (iii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time; or (iv) an issue of shares in the Company upon the exercise of subscription or conversion rights attaching to any warrants which may be issued by the Company from time to time or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue at the date of passing of this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution,

"Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking, varying or renewing the authority given to the Directors by this resolution; and

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving the right to subscribe for shares, open for a period fixed by the Directors to holders of shares whose names appear on the register of shareholders of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company)."

5. to consider as special business and, if thought fit, pass, with or without modification, the following resolution as an ordinary resolution:

"**THAT**:

(a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its shares on the GEM or any other stock exchange on which the shares of the Company may be listed and recognised by The Securities and Futures Commission of Hong Kong ("SFC") and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the SFC, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal value of shares of the Company authorised to be repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate of the total nominal value of the issued share capital of the Company at the date of the passing of this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(c) for the purpose of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company, or any applicable law of the Cayman Islands to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking, varying or renewing the authority given to the Directors by this resolution."

6. to consider as special business and, if thought fit, pass, with or without modification, the following resolution as an ordinary resolution:

"**THAT** conditional upon resolutions nos. 4 and 5 being passed, the unconditional general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with any additional shares in the share capital of the Company and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertibles into shares of the Company) which might require the exercise of such power pursuant to resolution no. 4 above be and is hereby extended by the addition thereto of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the issued share capital of the Company at the date of the passing of the said resolution."

By Order of the Board
Vertex Group Limited
Tang Yat Ming, Edward
Company Secretary

Hong Kong, 30 March 2010

Principal place of business in Hong Kong:
Room 905-906, 9/F
Far East Consortium Building,
121 Des Voeux Road Central,
Hong Kong

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P. O. Box 2681GT
George Town
Grand Cayman
British West Indies

Notes:

1. Every shareholder of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a shareholder of the Company.

2. A form of proxy in respect of the annual general meeting is enclosed herewith. Whether or not you intend to attend the annual general meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon.

3. In order to be valid, the form of proxy and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited with the principal place of business of the Company in Hong Kong at Room 905-906, 9/F, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or, as the case may be, any adjournment thereof.

4. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Meeting if the shareholder of the Company so desires and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. Where there are joint registered holders of any shares of the Company ("Shares"), any one of such holders may vote at the annual general meeting, either personally or by proxy, in respect of such Shares as if he were solely entitled thereto, but if more than one of such joint holders be present at the annual general meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any Share stands shall for this purpose be deemed joint holders thereof.