(慧峯集團有限公司)*

# VERTEX
## Communications & Technology Group Limited

*( Incorporated in the Cayman Islands with Limited Liability )*

# Annual Report 2002

* For identification purposes only

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors. Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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

*This report, for which the directors of Vertex Communications & Technology Group Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: i. the information contained in this report is accurate and complete in all material respects and not misleading; ii. there are no other matters the omission of which would make any statement in this report misleading; and iii. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

# Corporate Profile

Vertex Communications & Technology Group Limited ("the Company") is a leading media and technology company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 17th October 2002 (Stock Code: 8228). The Company and its subsidiaries (together the "Group") specialize in the provision of communications infrastructure services, content production, application of content delivery technology. Based in Hong Kong, the Group has operation offices in Shanghai and Beijing.

**Media** — *Content Production, Procurement and Delivery*

***Newsweek*** The Group holds exclusive licenses to publish Chinese Newsweek Special Edition and a monthly Chinese edition of Newsweek, Newsweek Select. Newsweek Select is a magazine on global economy, business, health, family, science, technology, lifestyle and entertainment, and the content of the magazine is based primarily on materials from the Newsweek magazine. Newsweek is one of the best-known and most prestigious global newsmagazines. Newsweek Select is to be produced and published by SinoWorld Media Company Limited ("SinoWorld Media"), a joint venture of the Group and Sino United Publishing (Holdings) Limited. The first special edition of Newsweek in Chinese was published in January 2002.

***MIT Technology Review*** The Group holds an exclusive license from Technology Review, Inc., a company associated with Massachusetts Institute of Technology (MIT), to publish the Chinese edition of MIT Technology Review. The Chinese edition is to focus on science and technology, and for distribution in the Greater China region. MIT Technology Review is regarded as one of the most authoritative technology magazines in the US. The first issue of MIT Technology Review Chinese Edition is planned to be available in 2003.

**Digital Media** — *Application of Content Delivery Technology*

***MMChina (www.MMChina.com)*** The Group operates a premium audio and video multi-media website providing audio and video channels. MMChina combines traditional broadcast media with co-operative public broadcasting in an integrated platform that allows media companies to broadcast to Chinese viewers through various telecommunication networks. Specialized interface and functions are incorporated into the broadcast interface for the community estates in Mainland China.

***Digital Products*** Our digital production operation is a joint-venture partnership with China Audio & Video Publishing House ("CAV"), one of the largest audio and video publishing group in China. The joint venture company, Beijing CAV Vertex Digital Technology Company Limited, provides advance digital media services in DVD, VCD and CD encoding, production and manufacture.

# Corporate Profile

**Technology Services** — *Communications Infrastructure Services*

***Solutions Services*** The Group specializes in content delivery applications which enable multimedia broadcast on IP network in both live and on-demand formats for entertainment, advertising, worldwide press conferences, seminars, distant learning, and special events.

***Communication Infrastructure Services*** The Group provides territory-wide planning, design, construction, and maintenance of telecommunication and broadband networks. Since 1998, the Group has been providing telecommunication solutions and engineering services in both fixed telecommunications network services (wire line based and local wireless) and cellular network systems to major network carriers in Hong Kong.

# Mission and Vision

"As China forges towards becoming a global economic and political power, its media landscape is undergoing a metamorphosis. We see a more open and convergent media market rapidly emerging in the next few years. We are geared towards satisfying such a demand. We aim to expedite the evolution of China media by integrating international media and media technology with the Chinese market. We bring prestige international media to the Chinese market under our multi-disciplinary platform, which includes printed media publishing, content production and editing, multi-media production, traditional distribution networks and content delivery technologies. Meeting this challenge is at the heart of everything we do. Managed by an experienced and focused management team with an international perspective, we are able to provide innovative services that connect, inform, and entertain people and assist business communities in China."

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### *Executive Directors*

Dr. Poon Kwok Lim Steven, JP *(Chairman)*
Mr. Poon Shu Yan Joseph *(CEO)*
Mr. Lee Shu Fan
Mr. Tam Chi Keung
Ms. Au Yeung Pui Shan Karen

### *Non-executive Directors*

Dr. Lee Peng Fei Allen, CBE, BS, FHKIE, JP
Professor Lin Chui Chau Otto

### *Independent Non-executive Directors*

Mr. Tsui Yiu Wa Alec
Mr. Yeung Pak Sing

## COMPANY SECRETARY

Ms. Au Yeung Pui Shan Karen LL. B.

## QUALIFIED ACCOUNTANT

Mr. Mok Hay Hoi AHKSA, CPA (AUST.)

## COMPLIANCE OFFICER

Mr. Lee Shu Fan

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

2703 China Merchants Tower
Shun Tak Centre
168-200 Connaught Road, Central
Hong Kong

## SHARE REGISTRAR AND TRANSFER OFFICES

*Principal share registrar and transfer office*
Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
36C, Bermuda House, 3rd Floor
Dr. Roy's Drive, George Town
Grand Cayman, Cayman Islands
British West Indies

*Hong Kong branch share registrar and transfer office*
Secretaries Limited
G/F, Bank of East Asia Harbour View Centre,
56 Gloucester Road
Wanchai, Hong Kong

## AUTHORISED REPRESENTATIVES

Mr. Poon Shu Yan Joseph
Mr. Tam Chi Keung

## AUDIT COMMITTEE

Mr. Yeung Pak Sing *(Chairman)*
Mr. Tsui Yiu Wa Alec

## LEGAL ADVISER

Dibb Lupton Alsop

## SPONSORS

Kingsway Capital Limited

## AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

## PRINCIPAL BANKERS

International Bank of Asia
Hang Seng 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.vctg.com

## GEM STOCK CODE

8228

# Chairman's Statement

On behalf of the Board of Directors of the Company, I am pleased to present the first annual report of the Company and its subsidiaries (the "Group") since the listing of our shares on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17th October 2002.

The year 2002 has been a year of uncertainty and opportunity.

Leading the scene was undoubtedly the business environment in the United States, where Dow Jones Index shed substantially and economic activities stagnated. At home in Hong Kong, gross domestic products grew at negative rates, bankruptcy reached record high and unemployment climbed to a level unseen in decades. And in the world arena, tension of conflict built up, with no sign of easing.

On the other side of the balance is the continued economic progress of China. China continued her achievement of some 8% p.a. economic growth in the year 2002. The Chinese population now enjoys stability and prosperity that have not been seen in hundreds of years of modern history. They are now far more able and willing to incur expenditure to improve their livelihood. Yet, China remains to be a developing country at the present time, promising a great deal more economic growth to come.

It is against this background that your Group is operating. Quite clearly, the Group's future is in its ability to benefit from the continued economic developments in Mainland China.

China's entry to the World Trade Organization, the hosting of the 2008 Olympics, and the further opening of the country produce, among other things, opportunities in the media sector. Media today is not limited to newspaper and television, but includes a wide range of digital media from DVD to Internet Cafe, from broadcasting to electronic publishing.

The Group is well placed in the setting. It has the ability to penetrate into the China Mainland market, armed with technologies and know-how. And its worldwide connection made it possible to get access to prestige media products. The strategy was to operate with world reputable media partners on the one hand, and to venture with capable media entities in Mainland China on the other.

The Group has gained significant successes in implementing this strategy, particularly after its listing of shares on GEM of the Stock Exchange. On the China side, we formed a joint venture with China Audio & Video Publishing House ("CAV"), an entity under the leadership of the Ministry of Culture of the People's Republic of China. CAV is one of the largest audio and video product companies. Under the joint venture agreements, the Group participates in the digital media part of CAV's chain of businesses, utilizing our technologies and know-how. The joint venture is likely to expand to other areas in the media industry, including print media and distribution of entertainment programs, as the media industry in China Mainland further opens.

# Chairman's Statement

At the same time, the Group gained the status of the worldwide sole licensee for publishing Newsweek in Chinese-language. Newsweek is published by Newsweek, Inc., a member company of the Washington Post Company. It has a circulation of 4.5 million per week worldwide. We are pleased with this landmark agreement, which not only formalizes our media positioning with a world-class title, but also brings the possibility of further co-operation with the world-renowned media group. Following the conclusion of the agreement with Newsweek, the Group secured a worldwide sole licensing agreement to publish the Massachusetts Institute of Technology – Technology Review in Chinese-language. This magazine reports on innovative technology and promotes general understanding of emerging technology for the society and for commercial use. As China becomes the world's manufacturing base, this magazine is timely bringing insights of the world's latest technology developments to technology developers, entrepreneurs, academia and policies makers.

With the negative economic growth in Hong Kong, our technology-based business was under substantial pressure. Revenue is generally lower in the Group's communications infrastructure and solution services businesses, which are largely Hong Kong based. With government budget being cut, increase in taxation rate and general economic difficulties, it is likely that these sectors will suffer further. The management is re-orienting them to Mainland China, where opportunities are more available. In this connection, our joint venture with CAV is likely to play a significant role. I shall be reporting to you from time to time as progress is made.

Our fortune is inseparable from that of Hong Kong. Running the business under the rather difficult environment, the management is conscious of the need to preserve financial resources. We are running a tight ship. Whilst we aim to expand, and the management strives to stay ahead and moves forward with rigor, seizing opportunities that are presented, the expansion is to be carried out with care and caution.

This is a testing time for Hong Kong. But Hong Kong has gone through many testing times in the past, and it has always come out stronger and more prosperous. I remain optimistic that Hong Kong will do it once again, and do it well.

Your Company has diligent, committed and loyal staff. On behalf of the Board, I would like to take this opportunity to extend my gratitude to all the staff for their valued contributions, which have been so important to the success of the Group. I would also like to express my sincere thanks to our business partners for their continuous support.

**Dr. Poon Kwok Lim Steven**
*Chairman*

Hong Kong
31 March 2003

# Management Discussion and Analysis

## BUSINESS REVIEW AND OUTLOOK

## MEDIA

### Newsweek Chinese Edition

In 2001, the Group entered into a joint venture with Sino United Publishing (Holdings) Limited ("Sino United") for the development of media business in the Greater China market. Sino United owns, among other entities, Commercial Press (Hong Kong) Limited, which is one of the oldest and well-established publishing companies. Sino United has substantial business in Hong Kong, China, Southeast Asia, USA and Europe, and is a major Chinese language publisher. The joint venture company is called SinoWorld Media Company Limited (華宇傳媒有限公司) ("SinoWorld Media").

In 2001, the Group entered into a licensing agreement with Newsweek, Inc., a subsidiary of the Washington Post Company of the United States of America. The license was for publishing Chinese-language Newsweek Special Editions. Each Newsweek Special Edition covers a special topic; for example, the Baby Edition covers child development from birth to 3 years old.

The works for four Chinese Newsweek Special Editions were completed in 2002. Two of the four Special Editions, i.e. "Health for Life" and "Baby: Age 0-3," were published in the year in association with two PRC publishing houses. The "Health for Life" issue achieved a circulation of 240,000 in the Greater China region, with 200,000 copies distributed in Mainland China. The other two Special Editions are expected to be published in 2003.

In 2002, SinoWorld CNW Publishing Limited ("SinoWorld CNW"), a subsidiary of SinoWorld Media, entered into a license agreement with Newsweek Inc. to publish the Chinese Newsweek in simplified Chinese characters on a regular basis. Since the market for weekly magazine is still at its infancy stage in China, the Management and Newsweek decided to initially publish Chinese Newsweek monthly. The Chinese Newsweek will be named "Newsweek Select."

Through a company restructuring announced in November 2002, the Group now owns 80% of SinoWorld Media. And SinoWorld Media owns 80% of SinoWorld CNW, which is now holding the licenses to publish both Newsweek Select and Chinese Newsweek Special Edition.

SinoWorld CNW is conducting trial publishing of Newsweek Select. It is anticipated that the magazine would be published in 2003. Electronic publishing will follow.

### MIT Technology Review Chinese Edition

The Group concluded a licensing agreement with Technology Review Inc., which is associated with Massachusetts Institute of Technology ("MIT"). The agreement enabled the Group to publish the MIT Technology Review in Chinese-language for the Greater China region.

# Management Discussion and Analysis

MIT Technology Review is one of the most respected technology magazines in the US. It is a monthly magazine for entrepreneurs in the Technology Age, focusing in business application of new technologies. The US edition has a publishing history of over 100 years and has reached over 1 million readers. The magazine is also launching Japanese, German and Italian editions in 2003.

Under the global exclusive licensing agreement, the Group has right to publish MIT Technology Review in both traditional and simplified Chinese characters, and in electronic form. The Management plans to launch a simplified Chinese version of the magazine targeting the Mainland China market in year 2003. Taiwan and Hong Kong markets will follow.

The Group plans to partner with a reputable publisher in Mainland China to publish the magazine. Such a partnership will allow the magazine to be sold nationwide in retail shops and newsstands and will substantially increase the popularity of the brand.

The Group is in the process of setting up the editorial, advertising sales and management team for the magazine. The Management plans to launch it in Shanghai in 2003.

### Partnership in Mainland China

Media business remains to be regulated in China. Access to the Mainland China market is currently denied to outside publishers. However, following China's entry to the World Trade Organization, there are signs that the domestic media market will gradually open to outside operators.

Group's media business in the Mainland China market is to partner with reputable and sizable media companies. In 2002, the Group partnered with two publishing companies for the Newsweek Special Editions, one of which was the reputable Shanghai Science & Technology Publishing Company. At the latter part of 2002, the Group reached agreements with China Audio & Video Publishing House ("CAV"), an entity under the leadership of the Ministry of Culture of the People's Republic of China, for a wide range of co-operation.

## DIGITAL MEDIA

### Digital Media Business in Beijing

The Group and CAV formed a joint-venture company, Beijing CAV Vertex Media Technology Company Limited (北京中錄慧峯數碼技術有限公司) ("CAV-Vertex"). The Group owns 30% of CAV-Vertex.

The main focus of CAV-Vertex is in digital media. It started operation in January 2003 as a provider of digital encoding services. The Management plans to develop it to include production of optical video products (VCD, DVD), and import and distribution of network/online games.

### Internet Multi-media

The Group's Internet broadcast site MMChina operates in Shanghai. MMChina now contains an inventory of video films and special programs, such as interviews and talk shows, in a format suitable for distribution on the Internet.

In 2002, the Group has entered into a corporation agreement with Shanghai Information Enterprises Limited ("SIE") for the distribution of the Group's multi-media program. SIE is a subsidiary of China Telecom and is one of the largest Internet Service Provider and Web portal in Shanghai. The co-operation with SIE enables MMChina to get access to the vast number of Internet users in Shanghai.

Delivery on the Internet requires licenses in Mainland China. This is being processed with CAV. Once that is done, MMChina will have all the ingredients to operate effectively in Shanghai.

## TECHNOLOGY SERVICES

### Communication Infrastructure Services

The Group's technology services business includes network engineering, system integration and software development for telecommunication and broadband network operators, and large corporations in Hong Kong. Our clients include Hutchison Global Communications, Hutchison Mobile, New T&T, and Hong Kong Broadband.

The telecom market is suffering a setback in 2002. Hong Kong Government granted four 3G licenses in 2001; but the development of 3G in Hong Kong has been slower than anticipated. And not many operators are actually developing their 3G network actively. On the other hand, although Hong Kong Government granted 6 additional wireless broadband licenses in 2001, making a total of 10 network operators, most of these new license holders are putting their network rollout plans on hold due to the depletion of development funds in the telecommunication sector.

Due to the global economic downturn, especially on the telecommunication sector, and the stagnated economic development in Hong Kong, the Group's network engineering business suffered a slow year in 2002. Despite the total revenue from network engineering increased from HK$6.8 million in previous year to HK$9.3 million in 2002, the gross profit margin of the business decreased substantially due to keen competition.

The Management anticipates that the market environment in 2003 for telecom network services will not improve significantly. This is due to pressure on both the supply and demand sides: while total expenditure of telecom operators continues to decrease, competition in the market will be fierce. The financing cost of project will also be higher.

### Other Engineering Services

In view of the difficulties in the telecom sector, the Management expanded the Group's engineering services to communication system, power and E&M projects. This effort has achieved moderate success by the first quarter 2003. The Management anticipates that this part of business would reached significant results in 2003.

### System Integration and Solution Services

The solutions business is to provide system integration, technical consulting Web site development, and end-to-end Internet services to corporations. It includes design, development, system integration and project management for corporate clients. Currently, the Group has long-term contracts with a number of large corporate clients.

The further opening of the Chinese market encourages international companies to set up operation and sales offices in Shanghai and Beijing. The Group has operating offices in both these places. The management is repositioning the Group solutions business with a focus to provide services in these areas.

## FINANCIAL REVIEW

## RESULTS

During the year under review, the Group posted a turnover of HK$13 million, representing an increase of approximately 8% compared with the previous year. The increase in revenue was attributable to the increase in broadband communication infrastructure services undertaken by the Group for local broadband network carriers and additional revenue from publication of the Chinese Newsweek Special Edition. The increase from communication infrastructure service and publication of Newsweek Special Edition was partially offset by a decrease in service income from other business, which was attributed to stagnant corporate information technology spending in Hong Kong.

Other revenue for the year ended 31st December 2002 amounted to HK$173,000 (2001: HK$14,000), which mainly included bank interest income.

Staff cost for the year under review increased to approximately HK$12.5 million from approximately HK$3.1 million in the previous year. The increase in staff cost was mainly attributed to recruitment of new staff for publication of Chinese Newsweek Special Edition, setting up of a corporate office for the Group, and additional staff for the newly acquired company, 上海創一信息技術有限公司 (Shanghai Vertex Communications & Technology Group Limited).

The subcontracting costs for the year under review amounted to approximately HK$8 million, representing approximately 60% of the respective turnover. In previous year, the subcontracting cost was approximately HK$5 million or 40% of the turnover. The increase in subcontracting cost and the percentage of subcontracting cost against turnover was in line with the increase in broadband communication infrastructure services executed during the period.

The increase in depreciation charge during the year as compared to the amount charged in previous year was due to depreciation of assets acquired from the subsidiaries of SAR1 Innovations Limited on 31st December 2001 at the aggregate net book value of approximately HK$6.3 million.

The royalty and production costs included mainly royalty paid to Newsweek, Inc., translation, printing and distribution costs incurred for the publication of the Chinese Newsweek Special Edition during the year. For the year ended 31st December 2002, the royalty and production cost amounted to HK$2 million, representing 15% of the turnover of the Group.

The other operating expenses for the year ended 31st December 2002 amounted to approximately HK$12 million, representing 91% of the turnover of the Group. The increase in other operating expenses was mainly attributable to the following factors:

(1) Termination of the management fee arrangement with SAR1 Group since 1st January 2002;

(2) Acquisition of Optimum Cyber Group;

(3) Publication of Chinese language Newsweek Special Editions;

(4) Written off of fixtures and fitting amounting to HK$1.1 million when the corporate office was moved from Quarry Bay to Sheung Wan at end of December 2002;

(5) Compliance and public relationship expenses of approximately HK$435,000 after the Group was listed on GEM;

(6) Provision for bad debt and stock obsolescence of approximately HK$717,000. On a prudence basis, the management decide to provide for about HK$590,000 or 50% of the amount advanced to Shanghai Chuan Yi; and

(7) Business development expenses amounting to HK$2.8 million in pursuing business opportunities in the PRC and Hong Kong. Out of the HK$2.8 million, there was HK$1 million paid for professional services rendered in connection with arrangement and establishment of a digital media joint venture company in Beijing. The balance of HK$1.8 million was paid for consultancy services rendered in development of telecommunication hardware & software business and communication technology business in the PRC and Hong Kong.

Net loss attributable to shareholders for the year was HK$22 million as compared to net profit of the preceding year of approximately HK$440,000.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31st December 2002, shareholders' funds of the Group amounted to approximately HK$53 million. The Group had total assets of approximately HK$56 million (2001: HK$41 million), including net cash and bank balances of approximately HK$32 million (2001: HK$27 million). The Group's current liabilities amounted to approximately HK$2.7 million and it had no bank debts. As at 31st December 2002, the Group had a current ratio of approximately 16.5 as compared to that of 2.3 at 31st December 2001. The total liabilities over the shareholders' fund of the Group is 0.05 as at 31st December 2002. According to the directors, the Group has adequate financial resources to meet its ongoing operations.

# Management Discussion and Analysis

During the year ended 31st December 2002, the Group financed its operations with its own working capital, internally generated cash flow and proceeds from issuance of new shares.

## FOREIGN EXCHANGE

Most of the transactions of the Group are denominated in Hong Kong Dollars and Renminbi. As the exchange rates of the Renminbi to Hong Kong Dollars are fairly stable and only minimum amount of Renminbi are kept in the PRC, the Directors are of the view that the exposure to foreign currency exchange risk is limited. Hence, no hedging or other arrangements to reduce the currency risk have been implemented.

## MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group acquired 100% of the issued share capital of the Optimum Cyber Limited and its subsidiary from SAR1 Group at a cash consideration of HK$3,000,000. The management considered the acquisition will enhance the future financial return of the Group by establishing a solid foothold in the PRC in development of media and technology businesses.

At the end of 2002, the Group acquired 30% of the issued share capital of 北京中錄慧峯數碼技術有限公司 which is principally engaged in the provision of digital media technology services in the PRC. The investment of the joint venture is approximately RMB1 million. The Group has a option to subscribe for another 21% of shares at a consideration of approximately RMB1 million.

Save as above, there was no material acquisition or disposals of subsidiaries and affiliated companies in the course of the financial year ended 31st December 2002.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING

Details for the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the Group's Prospectus dated 9 October 2002 under the sections headed "Statement of Business Objectives and Strategies" and "Reasons for the Placing and Use of Proceeds" respectively. Other than those disclosed, the Group did not have any plan for material investments or capital assets.

## CONTINGENT LIABILITIES

As at 31 December 2002, the Group did not have any significant contingent liabilities (2001: nil).

Details on the contingent liabilities are set out in note 27 to the financial statements.

## RELEASE OF PERSONAL GUARANTEES

Before the balance sheet date, the personal guarantee provided by one of the directors of the Group in respect of a bank guarantee of HK$2,000,000 (2001:HK$2,000,000) granted to a customer of the Group was released and replaced by a corporate guarantee duly executed by the Group.

In addition, a personal guarantee provided by one of the directors to the landlord of the office premises of the Group at 25th Floor, 663 King's Road, North Point, Hong Kong to secure the obligations of the Group as a tenant was released upon expiry of the tenancy agreement on 14th December, 2002.

## SIGNIFICANT INVESTMENT

During the year under review, there was no significant investment held by the Group (2001: Nil)

## CHARGE ON GROUP ASSETS

Details on the charge on Group Assets are set out in note 18 to the financial statements.

## EMPLOYEE

As at 31 December 2002, the Group had a total of 47 staff of which 12 were based in the PRC and 35 were based in Hong Kong. The breakdown of staff by function and geographical location is as follows:

| | PRC | Hong Kong | Total |
|---|---|---|---|
| Management | 2 | 4 | 6 |
| Network Project Management | – | 10 | 10 |
| Administration and Office Support | – | 5 | 5 |
| Legal, Finance & Human Resources | 3 | 3 | 6 |
| Business and Market Development | 3 | 5 | 8 |
| Media and Content Production | 2 | 3 | 5 |
| Technology Operation and Development | 2 | 5 | 7 |
| | 12 | 35 | 47 |

The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

The Group has not experienced any significant problems with its employees or disruption to its operation due to labor 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.

# Directors and Senior Management

## DIRECTORS

### BOARD OF DIRECTORS

#### Executive Directors

**Dr. Poon Kwok Lim Steven,** JP, aged 59, is the Chairman of the Group. was one of the founders of the Group in 1998. Dr. Poon holds a Bachelor's degree in Electrical Engineering from the National Taiwan University, a Master's degree in Electrical Engineering from the University of Hong Kong and an honorary doctoral degree in Business Administration from the Hong Kong University of Science and Technology. Dr. Poon was formerly the General Manager and Chief Operating Officer of China Light & Power Company Limited. Dr. Poon was previously a member of the Hong Kong Legislative Council, the Chairman of Land Development Corporation, a member of the Council of the Stock Exchange and a member of the Listing Committee of the Stock Exchange. Dr. Poon is currently the Managing Director of Bright World Enterprise Limited and an independent non-executive director of International Bank of Asia. Dr. Poon was a founding Council Member of the Hong Kong University of Science and Technology ("HKUST"). Dr. Poon is the father of Mr. Poon Shu Yan Joseph.

**Mr. Poon Shu Yan Joseph**, aged 32, is the Chief Executive Officer of the Group. Mr. Poon has been employed by the Group since May 1998. Mr. Poon was one of the founders of the Group in 1998. Mr. Poon holds a Bachelor of Science degree in Electrical Engineering from the University of Southern California. Upon graduation, Mr. Poon joined Hong Kong Cable Television Company, where Mr. Poon was in charge of the design and construction of the territory-wide fibre network. Mr. Poon later became the senior engineer at New T & T (Hong Kong) Limited, where Mr. Poon was responsible for the design and building of its overall telecommunication transmission network. Mr. Poon is the son of Dr. Poon.

**Mr. Lee Shu Fan**, aged 39, is the Chief Financial Officer and Compliance Officer of the Group. Mr. Lee has been employed by the Group since February 2000. Mr. Lee holds a Juris Doctor degree from the American University Washington College of Law as well as a Bachelor of Arts degree in Economics from the State University of New York. Mr. Lee is a qualified US lawyer and Hong Kong solicitor. Prior to joining the Group, Mr. Lee worked with Goodman Financial Services. Before that, Mr. Lee was a Director of Capital Markets at Nikko Securities Asia during the period from 1996 to 1998. Mr. Lee was also the Vice President of Equity Capital Markets at W.I. Carr Indosuez Capital Asia.

**Mr. Tam Chi Keung**, aged 42, is the Chief Administrative Officer of the Group. Mr. Tam has been employed by the Group since May 1998. Mr. Tam obtained his Master of Business Administration degree from Newport University in the US and graduated from The Hong Kong Polytechnic in Electrical Engineering. Mr. Tam is a member of The Institution of Incorporated Engineers in electronic, electrical and mechanical engineering in the United Kingdom. Mr. Tam has more than 20 years of experience in development, operation and management of infrastructure projects both in Hong Kong and the PRC. Prior to joining the Group, Mr. Tam worked for China Light & Power Company Limited and held a key position in a power station project in the PRC from 1978 to 1989.

# Directors and Senior Management

**Ms. Au Yeung Pui Shan Karen**, aged 30, is the In-house Counsel and Company Secretary of the Group. Ms. Au Yeung has been employed by the Group since July 2000. Ms. Au Yeung obtained her Bachelor of Laws and Postgraduate Certificate in Laws from the University of Hong Kong and was admitted as a solicitor both in Hong Kong and England & Wales.

## Non-executive Directors

**Dr. Lee Peng Fei Allen, CBE, BS, FHKIE, JP**, aged 62, became a non-executive Director of the Group in March 2002. Dr. Lee holds an honorary doctoral degree in Engineering from the Hong Kong Polytechnic University and an honorary doctoral degree in Law from the Chinese University of Hong Kong. He was formerly a member of the Hong Kong Legislative Council from 1978 to 1997 and a senior member of the Hong Kong Legislative Council from 1988 to 1991. Dr. Lee was also a member of the Hong Kong Executive Council from 1985 to 1992.

**Professor Lin Chui Chau Otto**, aged 64, became a non-executive Director of the Group in March 2002. He is the vice president for Research and Development of HKUST. Professor Lin obtained his master's and doctor's degrees from Columbia University.

## Independent non-executive Directors

**Mr. Tsui Yiu Wa Alec**, aged 54, joined the Group in March 2002. He is one of the founders of WAG, a financial and management consulting services group in Hong Kong. He is the chairman of the Hong Kong Securities Institute. He also serves on the boards of various listed companies as an independent non-executive director. Mr. Tsui was the chief executive of iRegent Group Limited from August 2000 to February 2001. Prior to joining iRegent, he was the chief operating officer of the Stock Exchange from March to July 2000 and the Chief Executive of the Stock Exchange from February 1997. He has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management.

**Mr. Yeung Pak Sing**, aged 53, joined the Group in June 2002. He is one of the founders of World Power Investment Limited and World Power Management Consultancy Limited, which are investment and management companies for coal-fired, hydro and diesel power stations in Fujian and Jiangsu Provinces. He is the Council Member of the Kwun Tong District Council of Hong Kong and a Member of the Chinese Consultative Council of Nanping City, Fujian Province. Mr. Yeung holds a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering from the University of Hong Kong.

# Directors and Senior Management

## SENIOR MANAGEMENT

**Mr. Wong Shing Bun**, aged 32, is the Chief Technology Officer of the Group. Mr. Wong has been employed by the Group since June 1999 and is responsible for Internet broadcast and voice technology. Mr. Wong received his Master of Philosophy degree in Computer Science from HKUST.

**Mr. Mok Hay Hoi**, aged 42, is the Financial Controller and Qualified Accountant of the Group. Mr. Mok has been employed by the Group since March 2000. Mr. Mok obtained a Bachelor of Commerce degree majoring in Accounting and Economics, and a master of information systems degree from University of Queensland, Australia. Mr. Mok is an associate member of the Hong Kong Society of Accountants and a full member of the Australian Society of Certified Public Accountants and the Institute of Certified Public Accountants of Singapore. Mr. Mok previously worked with two international accounting firms for 6 years. Prior to joining the Group, he was the general manager of Aztech Systems (Hong Kong) Ltd., a company specialising in sound cards, modem and other telecommunication equipment. Mr. Mok has about 10 years' experience in accounting and finance.

**Mr. Chiu Keith**, aged 33, is the Business Development Manager of the Group. Mr. Chiu has been employed by the Group since September 1998. He completed his tertiary education in the United States. Prior to joining the Group, he worked with the operation department of Japan Airlines in Hong Kong.

**Mr. Yeung Wai Hing**, aged 39, was employed by the Group as Business Development Manager in September 2000 and was appointed as General Manager of the Shanghai office in the same year. Mr. Yeung has more than ten years' experiences in business development and operation management both in Hong Kong and in the PRC.

**Mr. Hong Chi Yuen**, aged 44, joined the Group as General Manager, Technology Services in August 2002. Mr. Hong holds a Bachelor of Science degree with major in Applied Computing, and a Master of Business Administration degree. Mr. Hong is a member of Chartered Management Institute and Association for Project Management. Mr. Hong has extensive working experience in the field of telecommunications and information technology. Prior to joining the Group, Mr. Hong was a Senior Manager of Infa Technologies Limited.

# Comparison of Business Progress and Use of Proceeds

| Business Objectives for the Review Period as set out in the Prospectus | Actual Business Progress in the Review Period |
|---|---|
| *Closely monitor and match up the development of broadband and 3G networks in the Greater China Region* | |
| • Set up a new department responsible for the development of content delivery applications on broadband and 3G networks | • Because of the uncertainties of the future prospects in respect of 3G deployment in the Greater China Region, the new department has been deferred in accordance with market situation. |
| • Provide training to management and engineering staff to enrich their knowledge on the broadband and 3G networks | • On going |
| *Develop cross-media content delivery business in the Greater China Region* | |
| • Complete the development of electronic publishing platform equipped with content delivery technologies | • The development of electronic publishing platform will be deferred until the print version of Newsweek Select and other magazines are well received by the market. |
| • Negotiate with property developers in the PRC for installation of i-Home | • On going |
| *Strengthen its expertise in communication technology* | |
| • Set up Net2Voice (Hong Kong) to further develop the voice and language technology | • Setting up of Net2Voice (Hong Kong) will be deferred in accordance with market requirement. |

# Comparison of Business Progress and Use of Proceeds

| Business Objectives for the Review Period as set out in the Prospectus | Actual Business Progress in the Review Period |
|---|---|
| *Develop new products and services, and strengthen its presence in the Greater China Region* | |
| • Evaluate the market potential of broadband network infrastructure services in Shanghai | • Done |
| • Set up a new department handling sales of broadband network equipment in the PRC and Hong Kong | • Setting up a new department handling sales of broadband network equipment will be deferred in accordance with market situation. |
| • Complete the negotiation with Newsweek, Inc. on the publication of Chinese language Newsweek Weekly | • Signed with Newsweek, Inc. to publish Newsweek Select, a monthly Chinese language Newsweek on 12 December 2002. |
| • Publish the first issue of the Chinese language Newsweek Weekly at the fourth quarter of 2002 | • Newsweek Select is scheduled to be published in 2003. |
| • Establish strategic partnerships with PRC media companies to develop the online media and traditional media business | • Lined up 中國錄音錄像出版總社 (China Audio & Video Publishing House), an entity under the leadership of the Ministry of Culture of the PRC, to form a joint venture company, 北京中錄慧峯數碼技術有限公司 (Beijing CAV Vertex Digital Technology Company Limited). |

# Comparison of Business Progress and Use of Proceeds

## USE OF PROCEEDS FROM THE GROUP'S INITIAL PUBLIC OFFERING ("IPO")

The net proceeds raised from the IPO on the GEM board of The Stock Exchange of Hong Kong Limited, after deduction of related expenses pursuant to the IPO, were approximately HK$40 million. The net proceeds were applied during the year ended 31 December 2002 as follows:

| | **Intended use of net proceeds as set out in the Prospectus** | **Actual use of net proceeds as of 31 December 2002** |
|---|---|---|
| | HK$'000 | HK$'000 |
| Expand network infrastructure services in the Greater China Region | 300 | 0 |
| Develop cross-media content delivery business in the Greater China Region | 1,800 | 1,844 |
| Develop and strengthen its expertise in communication technology | 2,400 | 2,095 |
| Develop new products and services, and strengthen its presence in the Greater China Region | 2,900 | 3,500 |
| Total | 7,400 | 7,439 |

# Directors' Report

The directors have pleasure in presenting their first annual report and the audited financial statements for the year ended 31st December, 2002.

## CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands on 16th November, 2001 as an exempted company under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 18th December, 2001.

Details of the reorganisation are set out in the prospectus dated 9th October, 2002 issued by the Company and note 1 to the financial statements.

On 17th October, 2002, the shares of the Company was successfully listed on the GEM of the Stock Exchange by way of placing of 123,050,000 new shares at an issue price of HK$0.4 per share to professional and institutional investors. The Group raised a total of approximately HK$40 million, net of related expenses, through the placing.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group include the provision of communication infrastructure services and information technology solutions as well as production and procurement of media contents. Particulars of the subsidiaries of the Company are set out in note 12 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's loss for the year ended 31st December, 2002 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 33 to 35.

The directors do not recommend the payment of a final dividend in respect of the year ended 31st December, 2002.

## FINANCIAL SUMMARY

A summary of the results of the Group for the past two financial years ended 31st December, 2002 is set out on page 73 of the annual report.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 10 to the financial statements.

## INTANGIBLE ASSETS

Details of the movements in the Group's intangible assets during the year are set out in note 11 to the financial statements.

## SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and Group's associates are set out in notes 12 and 13 to the financial statements respectively.

## CHARITABLE DONATION

During the year, the Group made charitable donation amounting to HK$300,000.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 21 to the financial statements.

During the period from 17th October, 2002 (being the date of listing of the Company's shares on the GEM of the Stock Exchange) to 31st December, 2002, there were no purchases, sales or redemptions by the Company or any of its subsidiaries of the Company's listed securities.

## RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in note 22 to the financial statements.

## DISTRIBUTABLE RESERVES

As at 31st December, 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately HK$48,432,000, which comprises of the share premium, capital reserve and accumulated losses.

# Directors' Report

## DIRECTORS

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

| | |
|---|---|
| *Executive directors:* | |
| Dr. Poon Kwok Lim, Steven *(Chairman)* | (appointed on 3rd December, 2001) |
| Mr. Poon Shu Yan, Joseph | (appointed on 3rd December, 2001) |
| Mr. Lee Shu Fan | (appointed on 22nd February, 2002) |
| Mr. Tam Chi Keung | (appointed on 22nd February, 2002) |
| Ms. Au Yeung Pui Shan, Karen | (appointed on 28th March, 2002) |
| *Non-executive directors:* | |
| Dr. Lee Peng Fei, Allen | (appointed on 28th March, 2002) |
| Professor Lin Chui Chau, Otto | (appointed on 28th March, 2002) |
| *Independent non-executive directors:* | |
| Mr. Tsui Yiu Wa, Alec | (appointed on 28th March, 2002) |
| Mr. Yeung Pak Sing | (appointed on 28th June, 2002) |

In accordance with article 87 of the Company's Articles of Association, Messrs. Poon Shu Yan, Joseph and Lee Shu Fan shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. All other remaining directors continue in office.

All executive directors have entered into service contracts with the Company respectively. The term of each service contract will be 3 years less one day commencing from and including 17th October, 2002 subject to early termination pursuant to such service contract including either the Company or the relevant executive director giving to the other party not less than three months' notice of termination or payment in lieu of notice.

All non-executive directors have been appointed for a term of two years from 17th October, 2002.

Save as disclosed above, no other director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31st December, 2002, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

### 1. Interests in shares

*A. The Company*

| Name | Number of ordinary shares beneficially held (Family and Corporate interests) | Shareholding |
|---|---|---|
| | | *(%)* |
| Dr. Poon Kwok Lim, Steven *(Note 1)* | 282,701,528 | 57.44 |
| Mrs. Poon Wong Wai Ping *(Note 1)* | 282,701,528 | 57.44 |
| Mr. Poon Shu Yan, Joseph *(Note 2)* | 16,788,667 | 3.41 |
| Dr. Lee Peng Fei, Allen *(Note 3)* | 11,100,000 | 2.26 |

*Notes:*

(1) The 282,701,528 shares are held as to 167,886,666 shares by Amazing Nova Corporation, as to 61,606,666 shares by Matrix Worldwide Corporation and as to 53,208,196 shares by Forever Triumph Limited. Dr. Poon Kwok Lim, Steven and his spouse, Mrs. Poon Wong Wai Ping, are deemed to be interested in all these shares as a result of their interests in Amazing Nova Corporation, Matrix Worldwide Corporation and Forever Triumph Limited as disclosed in the "Substantial shareholders" below.

(2) Mr. Poon Shu Yan, Joseph is beneficially interested in 10% of the entire issued share capital of Amazing Nova Corporation which holds 167,886,666 shares in the Company. Mr. Poon Shu Yan, Joseph is deemed, by virtue of the SDI Ordinance, to be interested in 16,788,667 shares held by Amazing Nova Corporation.

(3) Supreme Lucky Ltd. is wholly and beneficially owned by Dr. Lee Peng Fei, Allen and his spouse, Ms. Choi Yuen Ha, Maria. Dr. Lee Peng Fei, Allen and Ms. Choi Yuen Ha, Maria are deemed, by virtue of the SDI Ordinance, to be interested in the same 11,100,000 shares held by Supreme Lucky Ltd.

*B. Shares in a subsidiary*

At 31st December, 2002, Dr. Poon Kwok Lim, Steven held indirectly through Forever Triumph Limited 100,000 shares which represent 10% of the issued share capital of SinoWorld CNW Publishing Limited, 80% of the issued share capital of which are held indirectly by the Company.

Save as disclosed above, none of the directors, chief executive or their associates had any interests in the shares of the Company or its associated corporations as defined in the SDI Ordinance.

## 2. Rights to acquire shares in or debentures of the Company

The directors of the Company had personal interests in share options to subscribe for shares in the Company as follows:

| | Number of options | | | |
|---|---|---|---|---|
| **Name** | **Outstanding at 1.1.2002** | **Granted during the year** | **Outstanding at 31.12.2002** | **Exercise price per share** |
| | | | | *HK$* |
| Dr. Poon Kwok Lim, Steven | – | 8,334,000 | 8,334,000 | 0.12 |
| Mr. Poon Shu Yan, Joseph | – | 8,000,000 | 8,000,000 | 0.12 |
| Mr. Lee Shu Fan | – | 2,767,000 | 2,767,000 | 0.21 |
| Mr. Tam Chi Keung | – | 1,334,000 | 1,334,000 | 0.12 |
| Ms. Au Yeung Pui Shan, Karen | – | 667,000 | 667,000 | 0.21 |
| | – | 21,102,000 | 21,102,000 | |

The above options were granted on 24th July, 2002 under the pre-initial public offer share option scheme ("Pre-IPO Option Scheme") which was conditionally approved by a written resolution of the sole shareholder dated 22nd July, 2002. The exercisable period of these options is from 17th October, 2003 to 23rd July, 2012. No options were exercised by the directors during the year.

A portion of each grantee's right to exercise the option that has been granted under the Pre-IPO Option Scheme shall be deemed to have vested on 17th June, 2002 and the rest of the right shall continue to vest over a period of not more than 4 years from 17th June, 2002 on a monthly basis each time for 1/48th of the total number of shares comprised in the option and, subject to that no option granted under the Pre-IPO Option Scheme can be exercised before 17th October, 2003, any vested right shall remain exercisable on or before 23rd July, 2012.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

## SHARE OPTION SCHEMES

Particulars of the Company's share option schemes and details of movements in the share options to subscribe for shares of HK$0.01 each in the Company granted under the share option schemes during the year are set out in note 31 to the financial statements.

As disclosed in note 31 to the financial statements, the Company had granted a total number of 27,125,000 options during the year. The directors consider that the calculation of value of options granted during the year is not possible as the date of grant of option was before the date on which the Company's shares listed on the GEM of the Stock Exchange.

## CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On 5th February, 2002, the Group acquired 100% of the issued share capital of Optimum Cyber Limited and its subsidiary from SAR1 Innovations Limited ("SAR1"), the then ultimate holding company, at a cash consideration of HK$3,000,000. Dr. Poon Kwok Lim, Steven, Dr. Lee Peng Fei, Allen and Mr. Poon Shu Yan, Joseph had beneficial interests in SAR1 and Dr. Poon Kwok Lim, Steven, Dr. Lee Peng Fei, Professor Lin Chui Chau, Otto and Messrs. Poon Shu Yan, Joseph, Lee Shu Fan and Tam Chi Keung were directors of SAR1 during the year.

The independent non-executive directors confirm that the transaction had been entered into by the Group in the ordinary course of business and in accordance with the terms of agreement governing this transaction.

Other than as disclosed above, no contracts of significance to which the Company or its subsidiaries was a party and in which a director 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.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the following parties were interested in 10% or more of the issued share capital of the Company as recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

| **Name of shareholder** | **Number of shares** | **Shareholding** |
|---|---|---|
| | | % |
| Dr. Poon Kwok Lim, Steven *(Notes 1, 2 & 3)* | 282,701,528 | 57.44 |
| Mrs. Poon Wong Wai Ping *(Notes 1, 2 & 3)* | 282,701,528 | 57.44 |
| Amazing Nova Corporation *(Note 1)* | 167,886,666 | 34.11 |
| Matrix Worldwide Corporation *(Note 2)* | 61,606,666 | 12.52 |
| Forever Triumph Limited *(Note 3)* | 53,208,196 | 10.81 |

*Notes:*

1. Amazing Nova Corporation is beneficially owned by Dr. Poon Kwok Lim, Steven, Mrs. Poon Wong Wai Ping, Mr. Poon Shu Yan, Joseph and Ms. Poon Ching Mei as to 40%, 40%, 10% and 10% respectively of its issued share capital. Mrs. Poon Wong Wai Ping is the spouse of Dr. Poon Kwok Lim, Steven whilst Mr. Poon Shu Yan, Joseph and Ms. Poon Ching Mei are children over the age of 18 of Dr. Poon Kwok Lim, Steven. Under the SDI Ordinance, Dr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are deemed to have interested in the same 167,886,666 shares held by Amazing Nova Corporation as Dr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are entitled to exercise more than one-third of the voting power at a general meeting of Amazing Nova Corporation.

2. Matrix Worldwide Corporation is wholly and beneficially owned by Dr. Poon Kwok Lim, Steven. Dr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of the SDI Ordinance, to be interested in the same 61,606,666 shares held by Matrix Worldwide Corporation.

3. Forever Triumph Limited is wholly and beneficially owned by Dr. Poon Kwok Lim, Steven. Dr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping are deemed, by virtue of the SDI Ordinance, to be interested in the same 53,208,196 shares held by Forever Triumph Limited.

Other than as disclosed above, no other parties were recorded in the register required by the Section 16(1) of the SDI Ordinance to be kept as having an interest of 10% or more of the issued share capital of the Company as at 31st December, 2002.

## RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 32 to the financial statements.

## MAJOR SUPPLIERS AND CUSTOMERS

The five largest customers of the Group for the year accounted for approximately 82% of the Group's turnover. The Group's largest customer accounted for approximately 59% of its turnover for the year.

The five largest suppliers of the Group for the year accounted for approximately 79% of the Group's purchase. The Group's largest supplier accounted for approximately 65% of its purchase for the year.

To the best knowledge of the directors, neither of the directors, their respective associates nor any shareholders who own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers or suppliers during the year.

## 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 existing shareholders.

## COMPETITION AND CONFLICT OF INTERESTS

None of the directors or the management shareholders (as defined under the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules")) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group.

## SPONSOR'S INTERESTS

The interests of Kingsway Capital Limited ("Kingsway") in the share capital of the Company as at 31st December, 2002 is summarized below:

| | As at 31st December, 2002 |
|---|---|
| Kingsway | Nil |
| Kingsway's employees (excluding directors) | Nil |
| Kingsway's directors | Nil |
| Kingsway's associates | 25,000,000 |
| Total | 25,000,000 |

Pursuant to the sponsorship agreement dated 8th October, 2002 entered into between the Company and Kingsway, Kingsway has received and will receive fees for acting as the Company's sponsor for the year ended 31st December, 2002 and two years thereafter or until the sponsorship agreement is terminated upon the terms and conditions set out therein.

Save as disclosed above, neither Kingsway nor its directors or employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the of the Company or any other companies in the Group (including options or right to subscribe for such share capital) as at the date of this report.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

Since the listing of its share on the GEM of the Stock Exchange on 17th October, 2002, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

## AUDIT COMMITTEE

The Company has established an audit committee on 22nd July, 2002 with written terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are (i) to review the Company's annual report and accounts, and half-yearly and quarterly reports; (ii) to provide advice and comments thereon to the board of directors; and (iii) to review and supervise the financial reporting process and internal control systems of the Group. The committee comprises the independent non-executive directors of Mr. Tsui Yiu Wa, Alec and Mr. Yeung Pak Sing. Mr. Yeung Pak Sing is the chairman of the audit committee.

Since its establishment, the audit committee has held two meetings.

## POST BALANCE SHEET EVENT

Details of the significant event occurring after the balance sheet date are set out in note 13 to the financial statements.

## AUDITORS

Messrs. Deloitte Touche Tohmatsu will retire at the conclusion of the forthcoming annual general meeting. A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
**Dr. Poon Kwok Lim, Steven**
*CHAIRMAN*

19 March, 2003

# Auditors' Report

**TO THE MEMBERS OF**
**VERTEX COMMUNICATIONS & TECHNOLOGY GROUP LIMITED**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 33 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31st December, 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
*Certified Public Accountants*
Hong Kong, 19 March, 2003

# Consolidated Income Statement

For the year ended 31st December 2002

| | NOTES | 2002<br>*HK$'000* | 2001<br>*HK$'000* |
|---|---|---|---|
| Turnover | 3 | 13,366 | 12,380 |
| Other operating income | | 173 | 14 |
| Depreciation | | (1,641) | (154) |
| Management fees | | – | (1,466) |
| Other operating expenses | | (12,125) | (2,190) |
| Royalty and production costs | | (2,041) | – |
| Subcontracting costs | | (7,983) | (5,000) |
| Staff costs | | (12,540) | (3,119) |
| (Loss) profit from operations | 5 | (22,791) | 465 |
| Share of results of an associate | | (72) | – |
| (Loss) profit before taxation | | (22,863) | 465 |
| Taxation credit (charge) | 7 | 81 | (52) |
| (Loss) profit before minority interests | | (22,782) | 413 |
| Minority interests | | 775 | 27 |
| Net (loss) profit for the year | | (22,007) | 440 |
| (Loss) earnings per share | 9 | | |
| – Basic | | (HK5.58 cents) | HK0.12 cents |
| – Diluted | | (HK5.58 cents) | HK0.11 cents |

# Consolidated Balance Sheet

At 31st December 2002

| | NOTES | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 10 | 5,735 | 6,749 |
| Goodwill | 11 | 3,289 | – |
| Interest in an associate | 13 | 887 | – |
| | | 9,911 | 6,749 |
| Current assets | | | |
| Inventories | 14 | 71 | – |
| Trade receivables | 15 | 4,818 | 6,754 |
| Amounts due from customers for contract work | 16 | 625 | – |
| Prepayments, deposits and other receivables | | 6,679 | 674 |
| Deferred expenditure for publication | | 1,081 | – |
| Amount due from an associate | 17 | 379 | – |
| Pledged bank deposits | 18 | 2,033 | 529 |
| Bank balances and cash | | 30,244 | 26,450 |
| | | 45,930 | 34,407 |
| Current liabilities | | | |
| Trade payables | 19 | 1,560 | 1,626 |
| Other payables and accrued expenses | | 1,214 | 481 |
| Amount due to a related company | 20 | – | 13,061 |
| Taxation | | 8 | 8 |
| | | 2,782 | 15,176 |
| Net current assets | | 43,148 | 19,231 |
| | | 53,059 | 25,980 |
| Capital and reserves | | | |
| Share capital | 21 | 4,922 | – |
| Reserves | 22 | 47,353 | 2,677 |
| | | 52,275 | 2,677 |
| Minority interests | | 784 | 663 |
| Non-current liabilities | | | |
| Amount due to the then ultimate holding company | 23 | – | 22,559 |
| Deferred taxation | 24 | – | 81 |
| | | – | 22,640 |
| | | 53,059 | 25,980 |

The financial statements on pages 33 to 72 were approved and authorised for issue by the Board of Directors on 19th March, 2003 and are signed on its behalf by:

| POON Shu Yan Joseph | LEE Shu Fan |
|---|---|
| *DIRECTOR* | *DIRECTOR* |

# Balance Sheet

At 31st December 2002

| | NOTES | 2002 | 2001 |
|---|---|---|---|
| | | *HK$'000* | *HK$'000* |
| Non-current assets | | | |
| Property, plant and equipment | 10 | 174 | – |
| Investments in subsidiaries | 12 | 5,787 | 2,787 |
| | | 5,961 | 2,787 |
| Current assets | | | |
| Trade receivables | | 194 | – |
| Prepayments, deposits and other receivables | | 4,466 | – |
| Amounts due from subsidiaries | | 15,963 | 11,592 |
| Amount due from an associate | 17 | 301 | – |
| Bank balances and cash | | 28,971 | – |
| | | 49,895 | 11,592 |
| Current liabilities | | | |
| Other payables and accrued expenses | | 945 | 4 |
| Amount due to a related company | 20 | – | 10,232 |
| Amounts due to subsidiaries | | 1,557 | 1,394 |
| | | 2,502 | 11,630 |
| Net current assets (liabilities) | | 47,393 | (38) |
| | | 53,354 | 2,749 |
| Capital and reserves | | | |
| Share capital | 21 | 4,922 | – |
| Reserves | 22 | 48,432 | 2,749 |
| | | 53,354 | 2,749 |

POON Shu Yan Joseph
*DIRECTOR*

LEE Shu Fan
*DIRECTOR*

# Consolidated Cash Flow Statement

For the year ended 31st December 2002

| | NOTE | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|---|
| Operating activities | | | |
| (Loss) profit from operations | | (22,791) | 465 |
| Adjustments for: | | | |
| Interest income | | (173) | (14) |
| Amortisation of goodwill | | 296 | – |
| Depreciation | | 1,641 | 154 |
| Loss on disposal of property, plant and equipment | | 1,123 | 254 |
| Operating cash flows before movements in working capital | | (19,904) | 859 |
| Increase in inventories | | (71) | – |
| Decrease (increase) in trade receivables | | 2,763 | (4,046) |
| Increase in amounts due from customers for contract work | | (625) | – |
| Increase in prepayments, deposits and other receivables | | (5,623) | (257) |
| Increase in deferred expenditure for publication | | (1,081) | – |
| Increase in amount due from an associate | | (379) | – |
| Decrease in amounts due from former fellow subsidiaries | | – | 8,555 |
| (Decrease) increase in trade payables | | (66) | 827 |
| Increase (decrease) in other payables and accrued expenses | | 580 | (181) |
| Net cash (used in) generated from operating activities | | (24,406) | 5,757 |
| Investing activities | | | |
| Interest received | | 173 | 14 |
| Acquisition of investment in an associate | | (959) | – |
| Acquisition of subsidiaries (net of cash and cash equivalents acquired) | 25 | (2,966) | – |
| Increase in pledged bank deposits | | (1,504) | (261) |
| Proceeds on disposal of property, plant and equipment | | 5 | – |
| Purchase of property, plant and equipment | | (511) | (481) |
| Net cash used in investing activities | | (5,762) | (728) |
| Financing activities | | | |
| Contribution from a minority shareholder | | 544 | 490 |
| New borrowings raised | | 7,290 | 23,985 |
| Repayments of borrowings | | (13,115) | (4,557) |
| Proceeds on placement of shares (net of expenses) | | 39,243 | – |
| Net cash from financing activities | | 33,962 | 19,918 |
| Increase in cash and cash equivalents | | 3,794 | 24,947 |
| Cash and cash equivalents at beginning of year | | 26,450 | 1,503 |
| Cash and cash equivalents at end of year | | 30,244 | 26,450 |
| Analysis of the balances of cash and cash equivalents | | | |
| Bank balances and cash | | 30,244 | 26,450 |

# Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

| | Total equity |
|---|---|
| | *HK$'000* |
| At 1st January, 2001 | 1,237 |
| Net profit for the year | 440 |
| Surplus arising on the reorganisation | 1,000 |
| At 31st December, 2001 and at 1st January, 2002 | 2,677 |
| Net loss for the year | (22,007) |
| Shares issued at premium | 81,582 |
| Share issue expenses | (9,977) |
| At 31st December, 2002 | 52,275 |

# Notes to the Financial Statements

For the year ended 31st December 2002

## 1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in the Cayman Islands on 16th November, 2001 as an exempted company under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The principal activities of the Group include the provision of communication infrastructure services and information technology services as well as production and procurement of media contents.

Pursuant to a reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 18th December, 2001 by principally issuing 4 shares of HK$0.10 each of the Company in exchange for the entire issued share capital of Network Engineering Limited, Net2Voice (Hong Kong) Limited, Pacific Digitals (HK) Limited and Unifine Ltd. Details of the reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix IV of the prospectus dated 9th October, 2002 issued by the Company.

The shares of the Company have been listed on the GEM since 17th October, 2002.

The Group resulting from the reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group for the year ended 31st December, 2001 have been prepared using the principle of merger accounting in accordance with Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions".

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Statements of Standard Accounting Practice. The principal accounting policies adopted are set out as follows:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances between group companies are eliminated on consolidation.

### Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of associates is included within the carrying amount of the associates. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

### Property, plant and equipment

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

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 20% per annum.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES – Continued

### Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid on acquisition in so far as it has not already been amortised to the income statement, less any identified impairment loss.

### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### Contract costs

When the outcome of a contract can be estimated reliably, contract costs are charged to the income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that costs incurred to date bear to estimated total costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

## 2. SIGNIFICANT ACCOUNTING POLICIES – Continued

### Contract costs – Continued

Where contract costs incurred to date plus recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the balance sheet, as a liability, as advances received under other payables and accrued expenses. Amounts billed for work performed but not yet paid by the customer are included in the balance sheet under prepayments, deposits and other receivables.

### Deferred expenditure for publication

Deferred expenditure for publication is stated at cost less impairment loss, if any. Cost comprises the production cost of the publication which consists of direct expenditure and an appropriate portion of production overhead. The production costs of the publication are charged to the income statement upon the issue of the publication.

### Revenue recognition

*Income derived from communication infrastructure services and application and development of content delivery technology services*

When the outcome of a contract can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. Income is accrued in the financial statements if the estimated percentage of the contract completed exceeds 20%. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Revenue from sales of magazines is recognised when the magazines are delivered and title has passed.

Advertising income is recognised when the advertisements are published.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

## 2. SIGNIFICANT ACCOUNTING POLICIES – Continued

### Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

### Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

### Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

### Retirement benefits costs

Payments to the retirement benefits schemes are charged as an expense as they fall due.

## 3. TURNOVER

| | 2002 | 2001 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Communication infrastructure service income | 9,328 | 6,822 |
| Service income from application and development of content delivery technology | 2,260 | 5,558 |
| Income from content productions, procurement and delivery | | |
| Sales of magazines | 590 | – |
| Advertising income | 1,188 | – |
| | 13,366 | 12,380 |

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is currently organised into three operating segments, namely communication infrastructure, application and development of content delivery technology and content production, procurement and delivery. These segments are the basis on which the Group reports its primary segment information. The principal activities of these segments are as follows:

| | | |
|---|---|---|
| Communication infrastructure | – | provision of communication infrastructure services |
| Application and development of content delivery technology | – | provision of information technology solutions including web solutions, system integration and payment solution |
| Content production, procurement and delivery | – | production and procurement of media contents, including traditional media and online contents |

Segment information about these businesses is presented below.

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

### Business segments – Continued

*Income statement for the year ended 31st December, 2002*

| | Communication infrastructure | Application and development of content delivery technology | Content production, procurement and delivery | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| TURNOVER | 9,328 | 2,260 | 1,778 | 13,366 |
| RESULTS | | | | |
| Segment results | (955) | (5,034) | (5,620) | (11,609) |
| Other operating income | | | | 173 |
| Unallocated corporate expenses | | | | (11,355) |
| Loss from operations | | | | (22,791) |
| Share of results of an associate | – | – | (72) | (72) |
| Loss before taxation | | | | (22,863) |
| Taxation credit | | | | 81 |
| Loss after taxation | | | | (22,782) |

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

### Business segments – Continued

*Balance sheet as at 31st December, 2002*

| | Communication infrastructure | Application and development of content delivery technology | Content production, procurement and delivery | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| ASSETS | | | | |
| Segment assets | 8,293 | 4,664 | 7,572 | 20,529 |
| Interest in an associate | – | – | 887 | 887 |
| Unallocated corporate assets | | | | 34,425 |
| Consolidated total assets | | | | 55,841 |
| LIABILITIES | | | | |
| Segment liabilities | 1,253 | 214 | 283 | 1,750 |
| Unallocated corporate liabilities | | | | 1,032 |
| Consolidated total liabilities | | | | 2,782 |

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

### Business segments – Continued

*Other information for the year ended 31st December, 2002*

| | Communication infrastructure | Application and development of content delivery technology | Content production, procurement and delivery | Unallocated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Allowances for bad and doubtful debts | – | 57 | 590 | – |
| Allowances for inventory obsolescence (included in other operating expenses) | – | – | 70 | – |
| Additions to property, plant and equipment | 205 | – | 1,337 | 213 |
| Amortisation of goodwill | – | – | 307 | – |
| Depreciation | 115 | 1,261 | 255 | 10 |

*Income statement for the year ended 31st December, 2001*

| | Communication infrastructure | Application and development of content delivery technology | Content production, procurement and delivery | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| TURNOVER | 6,822 | 5,558 | – | 12,380 |
| RESULTS | | | | |
| Segment results | 15 | 550 | (75) | 490 |
| Interest income | | | | 14 |
| Unallocated corporate expenses | | | | (39) |
| Profit before taxation | | | | 465 |
| Taxation | | | | (52) |
| Profit after taxation | | | | 413 |

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

### Business segments – Continued

*Balance sheet as at 31st December, 2001*

| | Communication infrastructure | Application and development of content delivery technology | Content production, procurement and delivery | Consolidated |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| ASSETS | | | | |
| Segment assets | 5,861 | 33,862 | 1,433 | 41,156 |
| LIABILITIES | | | | |
| Segment liabilities | 1,585 | 606 | 5 | 2,196 |
| Unallocated corporate liabilities | | | | 35,620 |
| Consolidated total liabilities | | | | 37,816 |

*Other information for the year ended 31st December, 2001*

| | Communication infrastructure | Application and development of content delivery technology | Content production, procurement and delivery |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Allowances for bad and doubtful debts | 570 | 161 | – |
| Additions to property, plant and equipment | 195 | 6,545 | 30 |
| Depreciation | 127 | 26 | 1 |

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

### Geographical segments

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

## 5. (LOSS) PROFIT FROM OPERATIONS

(Loss) profit from operations has been arrived at after charging (crediting):

| | 2002<br>*HK$'000* | 2001<br>*HK$'000* |
|---|---|---|
| Allowances for bad and doubtful debts | 647 | 731 |
| Allowances for inventory obsolescence (included in other operating expenses) | 70 | – |
| Amortisation of goodwill (included in other operating expenses) | 296 | – |
| Auditors' remuneration | 350 | – |
| Business development expenses | 2,800 | – |
| Loss on disposal of property, plant and equipment | 1,123 | 254 |
| Operating lease rentals in respect of land and buildings | 2,326 | 331 |
| Staff costs, including directors' remuneration | | |
| Retirement benefits schemes contributions | 431 | 125 |
| Salaries and allowances | 12,109 | 2,994 |
| | 12,540 | 3,119 |
| Interest income on bank deposits | (173) | (14) |

Auditors' remuneration of HK$100,000 for the year ended 31st December, 2001 was borne by a subsidiary of SAR1 Innovations Limited ("SAR1"), the then ultimate holding company, in return for management fees.

## 6. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

### Directors' emoluments

| | 2002 | 2001 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Fees: | | |
| Executive directors | 104 | – |
| Non-executive directors | 62 | – |
| Independent non-executive directors | 84 | – |
| | 250 | – |
| Other emoluments – Executive directors: | | |
| – salaries and other benefits | 2,551 | – |
| – discretionary bonus | 341 | – |
| – retirement benefits schemes contributions | 37 | – |
| | 2,929 | – |
| | 3,179 | – |

During the year ended 31st December, 2002, the five executive directors received emoluments of approximately HK$993,000, HK$973,000, HK$493,000, HK$399,000 and HK$175,000 respectively, the two non-executive directors each received director's fees of approximately HK$31,000 and the two independent non-executive directors each received director's fees of approximately HK$42,000.

During the year ended 31st December, 2001, the directors of the Group were remunerated by a subsidiary of SAR1 in return for management fees.

No directors of the Company waived any emoluments in the years ended 31st December, 2001 and 2002.

## 6. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS – Continued

### Employees' emoluments

Of the five highest paid individuals, two (2001: nil) were directors of the Company, details of whose emoluments are included in the above disclosures. The emoluments of remaining three (2001: five) individuals were set out as follows:

| | 2002 | 2001 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and other benefits | 1,812 | 1,471 |
| Retirement benefits schemes contributions | 36 | 55 |
| | 1,848 | 1,526 |

The aggregate emoluments of each of the highest paid individuals were less than HK$1,000,000 for both years.

During the year, no emoluments were paid by the Group to the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 7. TAXATION CREDIT (CHARGE)

| | 2002 | 2001 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Deferred taxation (note 24) | 81 | (52) |

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits for both years.

Pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the Company's subsidiary in the PRC is exempted from income tax for its first two profitable years of operation and is entitled to a 50% relief on the income tax of the PRC for the following three years. No provision for the PRC income tax has been made in the financial statements as the Company's subsidiary in the PRC had no assessable profit in the PRC for the year.

Details of the Group's deferred taxation are set out in note 24.

## 8. DIVIDEND

No dividend was paid or proposed during 2001 and 2002, nor has any dividend been proposed since the balance sheet date.

## 9. (LOSS) EARNINGS PER SHARE

| | 2002<br>*HK$'000* | 2001<br>*HK$'000* |
|---|---|---|
| (Loss) earnings for the purpose of basic and diluted (loss) earnings per share | (22,007) | 440 |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | 394,616,209 | 369,146,232 |
| Effect of dilutive potential ordinary shares: | | |
| Options | N/A | 27,125,000 |
| Number of ordinary shares for the purpose of diluted (loss) earnings per shares | 394,616,209 | 396,271,232 |

The computation of the basic (loss) earnings per share for the year ended 31st December, 2001 was based on 369,146,232 shares deemed to be in issue throughout the year on the assumption that the corporate reorganisation as described in note 1 had been effective on 1st January, 2001.

The computation of diluted loss per share for the year ended 31st December, 2002 does not take into account of the Company's potential ordinary shares issued and allotted upon the exercises of the options granted under the Company's pre-initial public offering share option scheme since their exercises would result in a reduction in net loss per share.

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements | Furniture, fixtures and office equipment | Motor vehicles | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| THE GROUP | | | | |
| COST | | | | |
| At 1st January, 2002 | 1,109 | 5,859 | 25 | 6,993 |
| Acquired on acquisition of subsidiaries | 1,040 | 204 | – | 1,244 |
| Additions | 184 | 122 | 205 | 511 |
| Disposals | (1,097) | (273) | (25) | (1,395) |
| At 31st December, 2002 | 1,236 | 5,912 | 205 | 7,353 |
| DEPRECIATION | | | | |
| At 1st January, 2002 | 8 | 221 | 15 | 244 |
| Provided for the year | 411 | 1,220 | 10 | 1,641 |
| Eliminated on disposals | (198) | (50) | (19) | (267) |
| At 31st December, 2002 | 221 | 1,391 | 6 | 1,618 |
| NET BOOK VALUES | | | | |
| At 31st December, 2002 | 1,015 | 4,521 | 199 | 5,735 |
| At 31st December, 2001 | 1,101 | 5,638 | 10 | 6,749 |

## 10. PROPERTY, PLANT AND EQUIPMENT – Continued

| | Leasehold improvements | Furniture, fixtures and office equipment | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| THE COMPANY | | | |
| COST | | | |
| Additions | 184 | 29 | 213 |
| Disposals | (32) | – | (32) |
| At 31st December, 2002 | 152 | 29 | 181 |
| DEPRECIATION | | | |
| Provided for the year | 6 | 4 | 10 |
| Eliminated on disposals | (3) | – | (3) |
| At 31st December, 2002 | 3 | 4 | 7 |
| NET BOOK VALUE | | | |
| At 31st December, 2002 | 149 | 25 | 174 |

## 11. GOODWILL

| | THE GROUP |
|---|---|
| | *HK$'000* |
| COST | |
| Arising on acquisitions of subsidiaries during the year and at 31st December, 2002 | 3,585 |
| AMORTISATION | |
| Charged for the year and at 31st December, 2002 | 296 |
| NET BOOK VALUE | |
| AT 31ST DECEMBER, 2002 | 3,289 |

The amortisation period adopted for goodwill is 5 to 10 years.

## 12. INVESTMENTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | 2002 | 2001 |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at carrying value | 2,787 | 2,787 |
| Unlisted shares, at cost | 3,000 | – |
| | 5,787 | 2,787 |

The carrying value of the Company's subsidiaries is based on the book value of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the ultimate holding company of the Group under the group reorganisation as set out in note 1.

## 12. INVESTMENTS IN SUBSIDIARIES – Continued

Particulars of the subsidiaries of the Company are as follows:

| Name | Place/country of incorporation or registration | Form of business structure | Issued and fully paid/ registered share capital | Attributable equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | *Directly* | *Indirectly* | |
| Network Engineering Limited | Hong Kong | Incorporated | Ordinary HK$1,000,000 | 100% | – | Provision of communication infrastructure services |
| Net2Voice (Hong Kong) Limited | Hong Kong | Incorporated | Ordinary HK$2 | 100% (Note i) | – | Inactive |
| Pacific Digitals (HK) Limited | Hong Kong | Incorporated | Ordinary HK$2 | 100% | – | Provision of application and development of content delivery technology services |
| Optimum Cyber Limited | British Virgin Islands | Incorporated | Ordinary US$157,844 | 100% | – | Investment holding |
| Shanghai Vertex Communications & Technology Group Limited 上海創一信息技術有限公司 | PRC | Wholly foreign-owned enterprise | Registered US$140,000 | – | 100% | Software and hardware development |

## 12. INVESTMENTS IN SUBSIDIARIES – Continued

| Name | Place/country of incorporation or registration | Form of business structure | Issued and fully paid/ registered share capital | Attributable equity interest held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | *Directly* | *Indirectly* | |
| Unifine Ltd. | British Virgin Islands | Incorporated | Ordinary US$1 | 100% | – | Investment holding |
| Vertex Digitial Media Limited | British Virgin Islands | Incorporated | Ordinary US$1 | – | 100% | Investment holding |
| SinoWorld Media Company Limited (formerly known as Sino World Media Company Limited) | Hong Kong | Incorporated | Ordinary HK$5,165,000 | – | 80% | Investment holding |
| SinoWorld CNW Publishing Limited (formerly known as Newsweek Publishing Company Limited) | Hong Kong | Incorporated | Ordinary HK$1,000,000 | – | 64% | Publication of magazine |

*Notes:*

(i) Pursuant to an agreement entered into between SAR1 and Net2Voice Inc. dated 20th October, 2001 and a letter of assignment dated 31st January, 2002, the issued share capital of Net2Voice (Hong Kong) Limited will be increased to 2,000,000 shares of which 1,020,000 shares will be subscribed by Net2Voice Inc. at the par value of HK$1 each and the remaining shares will be subscribed by the Company at the par value of HK$1 each. After the enlarged share capital of Net2Voice (Hong Kong) Limited has been issued and subscribed, the Company will hold a 49% interest in Net2Voice (Hong Kong) Limited, which will become an associate of the Company.

(ii) The principal place of operation of all the companies is in Hong Kong except Shanghai Vertex Communications & Technology Group Limited which is operated in other regions in the PRC.

## 13. INTERESTS IN AN ASSOCIATE

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | HK$'000 | HK$'000 |
| Share of net assets | 225 | – |
| Premium on acquisition of an associate | 662 | – |
| | 887 | – |

As at 31st December, 2002, the Group had interests in the following associate:

| Name of entity | Form of business structure | Country of registration and operation | Class of share held | Proportion of nominal value of registered capital indirectly held by the Group | Name of business |
|---|---|---|---|---|---|
| Beijing CAV Vertex Digital Technology Company Limited ("Beijing CAV Vertex") 北京中錄慧峯數碼技術有限公司 | Sino-foreign equity joint venture | PRC | Registered | 30% | Provision of development of digital media technology services |

The Group's entitlement to share in the profits of its associate is in proportion to its ownership interest.

During the year, goodwill of approximately HK$673,000 arose on the acquisition of Beijing CAV Vertex. The amortisation period adopted for the goodwill is 5 years and amortisation charge in the current year amounting to approximately HK$11,000 has been included in the amount reported as share of results of an associate in the consolidated income statement.

Pursuant to the agreement entered into between the Group and 中國錄音錄像出版總社, the Group agreed to further acquire additional 21% of the entire issued share capital of Beijing CAV Vertex at a consideration of approximately HK$980,000 subject to the approval from the Beijing Foreign Economic Trade Committee. This transfer of shares in Beijing CAV Vertex was approved by the Beijing Foreign Economic Trade Committee in December 2002 and was completed subsequent to the balance sheet date.

## 14. INVENTORIES

### THE GROUP

The amount represented finished goods which are stated at net realisable value at the balance sheet date.

## 15. TRADE RECEIVABLES

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

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | *HK$'000* | *HK$'000* |
| 0 to 30 days | 847 | 4,764 |
| 31 to 60 days | 308 | 875 |
| 61 to 90 days | 2,235 | 68 |
| 91 to 180 days | 885 | 302 |
| Over 180 days | 543 | 745 |
| | 4,818 | 6,754 |

## 16. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | *HK$'000* | *HK$'000* |
| Contracts in progress: | | |
| Contract costs incurred plus recognised profit less recognised losses | 625 | 324 |
| Less: Progress billings | – | 324 |
| Amounts due from customers for contract works | 625 | – |

At 31st December, 2002, retention monies held by customers for contract work amounted to HK$97,000 (2001: HK$97,000) and were included in prepayments, deposits and other receivables. Advances received from customers for contract work amounted to approximately HK$136,000 (2001: HK$279,000) and were included in other payables and accrued expenses.

## 17. AMOUNT DUE FROM AN ASSOCIATE

### THE GROUP AND THE COMPANY

The amount is unsecured, non-interest bearing and has no fixed repayment terms.

## 18. PLEDGED BANK DEPOSITS

### THE GROUP

The Group had pledged fixed deposits of approximately HK$2,033,000 (2001: HK$529,000) to a bank in respect of a bank guarantee of HK$2,000,000 (2001: HK$2,000,000) issued under a performance bond granted to a customer of the Group.

## 19. TRADE PAYABLES

The aged analysis of trade payables is stated as follows:

| | THE GROUP | |
|---|---|---|
| | 2002 | 2001 |
| | *HK$'000* | *HK$'000* |
| 0 to 30 days | 580 | 1,489 |
| 31 to 60 days | 335 | – |
| 61 to 90 days | 310 | 59 |
| 91 to 180 days | 273 | 5 |
| Over 180 days | 62 | 73 |
| | 1,560 | 1,626 |

## 20. AMOUNT DUE TO A RELATED COMPANY

Details of the amount due to a related company in which Dr. Poon Kwok Lim, Steven has a beneficial interest and Dr. Poon Kwok Lim, Steven and Mr. Poon Shu Yan, Joseph are also directors are as follows:

| | | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|---|
| Name of related entity | Terms | 2002 | 2001 | 2002 | 2001 |
| | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Bright World Enterprise Limited | Unsecured, non-interest bearing and has no fixed repayment term | – | 13,061 | – | 10,232 |

## 21. SHARE CAPITAL

| | Notes | Number of shares | HK$'000 |
|---|---|---|---|
| Authorised: | | | |
| On incorporation, ordinary share of HK$0.01 each | (i) | 39,000,000 | 390 |
| Share consolidation, ordinary shares of HK$0.1 each | (ii) | (35,100,000) | – |
| Increase during the period, ordinary shares of HK$0.1 each | (ii) | 5,996,100,000 | 599,610 |
| At 31st December, 2002 and 1st January, 2001, ordinary shares of HK$0.1 each | | 6,000,000,000 | 600,000 |
| Share sub-division, ordinary shares of HK$0.01 each | (iv) | 54,000,000,000 | – |
| At 31st December, 2002, ordinary shares of HK$0.01 each | | 60,000,0000,000 | 600,000 |
| Issued and fully paid: | | | |
| Allotted and issued on incorporation, ordinary shares of HK$0.01 each | (i) | 1 | – |
| Issue of shares, ordinary shares of HK$0.01 each | (i) | 9 | – |
| Share consolidation, ordinary shares of HK$0.1 each | (ii) | (9) | – |
| Issue of shares on the reorganisation, ordinary shares of HK$0.1 each | (iii) | 4 | – |
| At 31st December, 2001 and at 1st January, 2002, ordinary shares of HK$0.1 each | | 5 | – |
| Share sub-division, ordinary shares of HK$0.01 each | (iv) | 45 | – |
| Issue of shares for settlement of amount due to SAR1, ordinary shares of HK$0.01 each | (v) | 369,146,182 | 3,691 |
| Issue of shares by placement, ordinary shares of HK$0.01 each | (vi) | 123,050,000 | 1,231 |
| At 31st December, 2002, ordinary shares of HK$0.01 each | | 492,196,232 | 4,922 |

## 21. SHARE CAPITAL – Continued

*Notes:*

(i) The Company was incorporated with an authorised share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each. One share of HK$0.01 each was allotted and issued to the subscriber on 3rd December, 2001. On 12th December, 2001, the Company issued nine shares of HK$0.01 each for a total consideration of HK$0.09 to the sole shareholder.

(ii) Pursuant to the written resolution passed by the sole shareholder on 12th December, 2001, every ten shares of HK$0.01 each in the capital of the Company were consolidated into one shares of HK$0.1 each and the authorised share capital of the Company was increased from HK$390,000 to HK$600,000,000 by the creation of additional 5,996,100,000 shares of HK$0.1 each, ranking pari passu in all respect with the existing shares of the Company.

(iii) On 18th December, 2001, the Company allotted and issued four ordinary shares of HK$0.1 each for the acquisitions of the entire issued share capital of Pacific Digitals (HK) Limited, Net2Voice (HK) Limited, Network Engineering Limited and Unifine Ltd from SAR1.

(iv) Pursuant to a written resolution passed by the sole shareholder on 18th January, 2002, each of the issued and unissued share of HK$0.1 each in the share capital of the Company were sub-divided into ten shares of HK$0.01 each and the authorised share capital of the Company thus became HK$600,000,000 divided into 60,000,000,000 shares of HK$0.01 each.

(v) On 22nd July, 2002, the Company allotted and issued, credited as fully paid, a total of 369,146,182 ordinary shares of HK$0.01 each of the Company to the shareholders of SAR1 as directed by SAR1 to settle the amount due to SAR1 as at that date.

(vi) On 17th October, 2002, by means of placing, the Company issued a total of 123,050,000 shares of HK$0.01 each at a price of HK$0.4 per share.

All the shares issued during the period ranked pari passu with the then existing shares in all respects.

## 22. RESERVES

| | Share premium HK$'000 | Special reserve HK$'000 | Capital reserve HK$'000 | Retained profits (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| THE GROUP | | | | | |
| At 1st January, 2001 | – | – | – | 1,237 | 1,237 |
| Net profit for the year | – | – | – | 440 | 440 |
| Surplus arising on the reorganisation | – | 1,000 | – | – | 1,000 |
| At 31st December, 2001 and at 1st January, 2002 | – | 1,000 | – | 1,677 | 2,677 |
| Net loss for the year | – | – | – | (22,007) | (22,007) |
| Share issued at premium | 76,660 | – | – | – | 76,660 |
| Share issue expenses | (9,977) | – | – | – | (9,977) |
| At 31st December, 2002 | 66,683 | 1,000 | – | (20,330) | 47,353 |
| THE COMPANY | | | | | |
| Net loss for the period | – | – | – | (38) | (38) |
| Surplus arising on the reorganisation | – | – | 2,787 | – | 2,787 |
| At 31st December, 2001 and at 1st January, 2002 | – | – | 2,787 | (38) | 2,749 |
| Net loss for the year | – | – | – | (21,000) | (21,000) |
| Share issued at premium | 76,660 | – | – | – | 76,660 |
| Share issue expenses | (9,977) | – | – | – | (9,977) |
| At 31st December, 2002 | 66,683 | – | 2,787 | (21,038) | 48,432 |

## 22. RESERVES – Continued

Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium of the Company may be distributed subject to the provision of the Company's Memorandum and Articles of Association and 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. This share premium account may also be distributed in the form of fully paid bonus shares.

The special reserve of the Group represents the difference between the nominal value of shares of the acquired subsidiaries and the nominal value of the shares of the Company issued for the acquisitions at the time of the reorganisation.

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 paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and 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.

Pursuant to the PRC law, a wholly foreign owned enterprise shall make reservation on reserve fund and bonus and welfare funds. The proportion of reserve fund to be withdrawn shall not be lower than 10% of the total amount of profits after payment of tax. The withdrawal of reserve fund may be stopped when the total cumulative reserve has reached 50% of the registered capital. The proportion of bonus and welfare funds for workers and staff members to be withdrawn shall be determined by the wholly foreign owned enterprise. Under the PRC law, the reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholdings, and the bonus and welfare funds are utilised for the capital expenditure on employees' welfare facilities. No appropriation was made to the reserve fund and bonus and welfare funds as the Company's subsidiary in the PRC incurred a loss for the year.

## 23. AMOUNT DUE TO THE THEN ULTIMATE HOLDING COMPANY

### THE GROUP

The amount due to SAR1, the then ultimate holding company, was unsecured and non-interest bearing.

The outstanding balance as at 31st December, 2001 was fully settled by the Group on 22nd July, 2002 by allotting and issuing 369,146,182 ordinary shares of HK$0.01 each of the Company to the shareholders of SAR1 as directed by SAR1 to settle an amount of approximately HK$32,362,000 due to SAR1 as at that date. As such, the outstanding balance as at 31st December, 2001 was shown as a non-current liability.

## 24. DEFERRED TAXATION

### THE GROUP

| | 2002 HK$'000 | 2001 HK$'000 |
|---|---|---|
| At beginning of year | 81 | 29 |
| (Credit) charged for the year (note 7) | (81) | 52 |
| At end of year | – | 81 |

At the balance sheet date, the components of the deferred taxation liability (asset) provided and unprovided are as follows:

| | THE GROUP | | | |
|---|---|---|---|---|
| | Provided | | Unprovided | |
| | 2002 HK$'000 | 2001 HK$'000 | 2002 HK$'000 | 2001 HK$'000 |
| Tax effect of timing differences because of: | | | | |
| Excess of tax allowances over depreciation | – | 818 | 669 | – |
| Estimated taxation losses | – | (737) | (3,647) | – |
| | – | 81 | (2,978) | – |

A deferred tax assets has not been recognised in the financial statements in respect of estimated tax losses available to offset future profit as it is not certain that the estimated tax losses will be utilised for the foreseeable future.

The amount of the unprovided deferred taxation for the year is as follows:

| | THE GROUP | |
|---|---|---|
| | 2002 HK$'000 | 2001 HK$'000 |
| Tax effect of timing differences because of: | | |
| Excess of tax allowances over depreciation | 669 | – |
| Estimated tax losses arising | (3,647) | – |
| | (2,978) | – |

## 24. DEFERRED TAXATION – Continued

### THE COMPANY

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

## 25. ACQUISITION OF SUBSIDIARIES

On 5th February, 2002, the Group acquired 100% of the issued share capital of Optimum Cyber Limited and its subsidiary from SAR1 at a cash consideration of HK$3,000,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK$3,233,000.

| | 2002 | 2001 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Net assets acquired | | |
| Property, plant and equipment | 1,244 | – |
| Trade receivables | 827 | – |
| Prepayments, deposits and other receivables | 382 | – |
| Bank balances and cash | 34 | – |
| Amount due to a related company | (54) | – |
| Amount due to SAR1 | (2,513) | – |
| Other payables and accrued expenses | (153) | – |
| | (233) | – |
| Goodwill | 3,233 | – |
| Total consideration | 3,000 | – |
| Satisfied by: | | |
| Cash | 3,000 | – |
| Net cash outflow arising on acquisitions: | | |
| Cash consideration | (3,000) | – |
| Bank balances and cash acquired | 34 | – |
| | (2,966) | – |

The subsidiaries acquired during the year utilised approximately HK$3,165,000 to the Group's net operating cash flows and utilised approximately HK$27,000 for investing activities.

The subsidiaries acquired during the year had contributed approximately HK$231,000 to the Group's turnover and approximately HK$3,360,000 to the Group's loss from operations.

## 26. MAJOR NON-CASH TRANSACTIONS

During the year, the Company allotted and issued a total of 369,146,182 ordinary shares of HK$0.01 each of the Company to shareholders of SAR1 as directed by SAR1 to settle an amount of approximately HK$32,362,000 due to SAR1 as at 22nd July, 2002.

During the year ended 31st December, 2001, the Group acquired property, plant and equipment at a consideration of approximately HK$6,289,000. The amount was settled through the current account with SAR1.

## 27. CONTINGENT LIABILITIES

A claim has been made against a wholly-owned subsidiary of the Company by the liquidator of a network service provider for approximately HK$664,000 being services allegedly rendered by the service provider. The directors are assessing the merits of this claim with the Company's legal advisors. Dr. Poon Kwok Lim, Steven, a director of the Company, has provided an indemnity to the Group under which the director will indemnify the Group for any losses resulting from such claim and the related charges if the Group is required to settle the claim. As such, no provision has been made during the year.

## 28. LEASE COMMITMENTS

### THE GROUP

At the balance sheet date, the Group had the following future minimum payments under non-cancellable operating leases which fall due as follows:

| | 2002<br>*HK$'000* | 2001<br>*HK$'000* |
|---|---|---|
| Within one year | 503 | 174 |
| In the second to fifth year inclusive | 729 | 29 |
| | 1,232 | 203 |

Operating lease payments represent rentals payable by the Group for its office premises. Leases are mainly negotiated for an average term of two years and rentals are fixed for an average of two years.

THE COMPANY

At the balance sheet date, the Company had no significant operating lease commitment.

## 29. CAPITAL COMMITMENTS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Commitment to subscribe for shares of Net2Voice (Hong Kong) Limited | 980 | 980 | 980 | 980 |
| Commitment to acquire additional 21% of the entire issued share capital of Beijing CAV Vertex | 980 | – | – | – |
| | 1,960 | 980 | 980 | 980 |

## 30. RELATED PARTY TRANSACTIONS

Apart from the amounts due to related parties as disclosed in notes 17, 20 and 23, the acquisition of subsidiaries from a related party as disclosed in note 25 and the indemnity as provided by Dr. Poon Kwok Lim, Steven as disclosed in note 27, the Group had the following related party transactions:

(a) During the period from 1st January, 2002 to 16th November, 2002, Dr. Poon Kwok Lim, Steven had provided a deed of indemnity to a bank to secure a bank guarantee of HK$2,000,000 (2001: HK$2,000,000) granted to a customer of the Group, for which no charge is made. This personal guarantee was released on 16th November, 2002 and replaced by a corporate guarantee executed by the Company.

(b) During the period from 1st January, 2002 to 14th December, 2002, Mr. Poon Shu Yan, Joseph had provided a personal guarantee to the landlord of the offices of the Group at 25th Floor, 663 King's Road, North Point, Hong Kong to secure the obligations of the Group as a tenant, for which no charge is made. This personal guarantee was released upon the tenancy agreement expired on 14th December, 2002.

(c) During the year ended 31st December, 2001, the Group paid management fees of approximately HK$1,466,000 to SAR1 (HK) Limited, a subsidiary of SAR1, being an allocation of costs incurred by SAR1 (HK) Limited for the provision of administrative and other supporting services. The fees were computed with reference to the estimated time spent by the relevant staff of SAR1 (HK) Limited on work done for the Group and the estimated office space occupied by the Group. The operating expenses excluded the capital expenses.

(d) During the year ended 31st December, 2001, the Group purchased the intellectual property rights of a micro-payment system for a nominal consideration of HK$1 from eCyberPay.com Limited, a subsidiary of SAR1.

## 30. RELATED PARTY TRANSACTIONS – Continued

(e) During the year ended 31st December, 2001, the Group purchased the streaming and other technology developed for web radio for a nominal consideration of HK$1 from RadioRepublic.com Limited, a subsidiary of SAR1.

(f) During the year ended 31st December, 2001, the Group purchased property, plant and equipment at a net book value of approximately HK$6,289,000 from certain subsidiaries of SAR1.

(g) During the year ended 31st December, 2001, account payables of HK$10,232,000 to Bright World Enterprise Limited were novated to the Group by SAR1. The directors explained that the account payable represented advances made by Bright World Enterprise Limited to SAR1. Such advances were in return loaned to the Group by SAR1 to finance the Group's operations.

## 31. SHARE OPTIONS SCHEMES

### (a) Post initial public offering share option scheme

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

(i) The Post-IPO Option Scheme enables the Company to grant 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 option offer. The option offer will be offered for acceptance for a period of 14 days from the date on which the offer is granted.

(iv) 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 options or any shares allotted pursuant to any options for any minimum period.

## 31. SHARE OPTIONS SCHEMES – Continued

### (a) Post initial public offering share option scheme – Continued

(v) The subscription price for 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 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 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.

(vii) The total number of shares which may be issued upon exercise of all 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 17th October, 2002, amounting to 49,219,623 shares (the "Scheme Mandate Limited"). 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 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 options to such grantee which would result in the shares issued and to be issued upon exercise of all 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) An 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 option must be exercised shall not be more than 10 years from the date of grant of the option.

(x) The Post-IPO Option Scheme will remain 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. 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.

No option has been granted under the Post-IPO Option Scheme since its adoption on 22nd July, 2002.

## 31. SHARE OPTIONS SCHEMES – Continued

### (b) 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 employment periods of grantees range from 1 to 3 years. The principal terms of the Pre-IPO Option Scheme, which conditionally approved by a written resolution of the sole shareholder dated 22nd 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$0.12 to HK$0.45, depending on the employment period of the grantee and/or the grantee's contribution to the Group;

(ii) the total number of shares subject to the Pre-IPO Option Scheme is 27,125,000 equivalent to approximately 5.51% of the issued share capital of the Company as of the balance sheet date;

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

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

(v) the Pre-IPO Option Scheme contains no provisions on (a) the granting of 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 options to be granted; and (c) the maximum entitlement of a grantee under the Pre-IPO Option Scheme.

The options to subscribe for an aggregate of 27,125,000 shares of the Company at a subscription price ranging from HK$0.12 to HK$0.45 were granted by the Company to the directors, advisers 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 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 option that has been conditionally granted under the Pre-IPO Option Scheme was deemed to have vested on 17th June, 2002 and the rest of the right shall continue to vest over a period of not more than 4 years from 17th June, 2002 on a monthly basis each time for 1/48th of the total number of shares comprised in the option and, subject to that no option granted under the Pre-IPO Option Scheme can be exercised before 17th October, 2003, any vested right shall remain exercisable on or before 23rd July, 2012.

## 31. SHARE OPTIONS SCHEMES – Continued

The following tables disclose details of the Company's share options granted under the Pre-IPO Option Scheme on 24th July, 2002 held by 5 directors, 11 employees as well as 3 advisors and consultants and movements in such holdings during the year:

| | | Number of options | | | |
|---|---|---|---|---|---|
| Name of grantee | Exercise price per share *HK$* | Outstanding at 1.1.2002 | Granted during the year | Lapsed during the year | Outstanding at 31.12.2002 |
| Directors | 0.12 | – | 17,668,000 | – | 17,668,000 |
| | 0.21 | – | 3,434,000 | – | 3,434,000 |
| | | – | 21,102,000 | – | 21,102,000 |
| Advisors and consultants | 0.12 | – | 434,000 | – | 434,000 |
| | 0.45 | – | 1,334,000 | – | 1,334,000 |
| | | – | 1,768,000 | – | 1,768,000 |
| Employees | 0.12 | – | 3,292,000 | 87,000 | 3,205,000 |
| | 0.21 | – | 963,000 | 70,000 | 893,000 |
| | | – | 4,255,000 | 157,000 | 4,098,000 |
| | | – | 27,125,000 | 157,000 | 26,968,000 |

The exercisable period of the above options is from 17th October, 2003 to 23rd July, 2012.

During the year, 157,000 options granted to two employees of the Group under the Pre-IPO Option Scheme were lapsed as they resigned from the Group.

Save as disclosed above, no option was exercised, cancelled or lapsed during the year.

## 31. SHARE OPTIONS SCHEMES – Continued

The exercise in full of the outstanding 26,968,000 share options at 31st December, 2002 would, under the present capital structure of the Company, result in the issue of 26,968,000 additional shares for a total consideration, before expenses, of approximately HK$4,066,000.

Total consideration received during the year from grantees for taking up the options granted is amounted to HK$19.

No charge is recognised in the income statement in respect of the value of options granted during the year.

No option was granted by the Company in 2001.

## 32. RETIREMENT BENEFITS SCHEMES

With effect from 1st 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 benefits 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 Company and the employees on a specified proportion of the employees' salaries laid down under the relevant PRC law.

# Financial Summary

For the year ended 31st December 2002

## RESULTS

| | 2002<br>*HK$'000*<br>*(Note 3)* | 2001<br>*HK$'000*<br>*(Note 3)* | 2000<br>*HK$'000*<br>*(Note 2)* |
|---|---|---|---|
| Turnover | 13,366 | 12,380 | 8,599 |
| (Loss) profit from operations | (22,791) | 465 | (6,803) |
| Share of results of an associate | (72) | – | – |
| (Loss) profit before taxation | (22,863) | 465 | (6,803) |
| Taxation credit (charge) | 81 | (52) | 81 |
| (Loss) profit before minority interests | (22,782) | 413 | (6,722) |
| Minority interests | 775 | 27 | 566 |
| Net (loss) profit for the year | (22,007) | 440 | (6,156) |

*Notes:*

1. The Company was incorporated in Cayman Islands on 16th November, 2001 and became the holding company of the Group with effect from 18th December, 2001 as a result of the group reorganisation, details of which are set out in the Company's prospectus dated 9th October, 2002. The consolidated balance sheets of the Group as at 31st December, 2001 and 2002 are set out on page 34 of this annual report.

2. The results of the Group for the year ended 31st December, 2000 have been prepared on a combined basis as if the group structure as at the date of the group organisation had been in existence throughout the year concerned and have been extracted from the Company's prospectus dated 9th October, 2002.

3. The results of the Group for the years ended 31st December, 2001 and 2002 have been extracted from the consolidated income statements which are set out on page 33 of this annual report.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the "**Meeting**") of the shareholders of Vertex Communications & Technology Group Limited (the "**Company**") will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 25 April 2003 at 3:30 p.m. for the following purposes: -

1. to receive and consider the audited financial statements of the Company for the year ended 31 December, 2002 together with the reports of the board of directors of the Company (the "**Board of Directors**") and Deloitte Touche Tohmatsu, the auditors of the Company;

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

3. to re-appoint Deloitte Touche Tohmatsu as the auditors of the Company and to authorise the Board of Directors 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; or

(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; or

(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 ("Securities and Futures Commission") and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, 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; or

(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; or

(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."

# Notice of Annual General Meeting

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 above 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 Communications & Technology Group Limited
AU YEUNG Pui Shan Karen
*Company Secretary*

Hong Kong, 31 March 2003

*Principal place of business in Hong Kong:*
Room 2703, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

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

* *For identification purpose only*

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. 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 2703, China Merchants Tower, Shun Tak Centre, 168-200 Connaught 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.

3. 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.

4. The Register of Members of the Company will be closed from 24 April 2003 to 25 April 2003, both days inclusive, during which period no share transfers will be registered. To qualify for attendance of the annual general meeting, all transfers accompanied by the relevant share certificates of the Company must be lodged with the Company's share registrar, Secretaries Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, no later than 4:00 p.m. on 23 April 2003, for registration.

This announcement will remain on the GEM website at "www.hkgem.com" on the "Latest Company Announcements" page for a minimum period of seven days from the date of publication.