

( 慧峯集團有限公司 )\*



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

2003

1st Quarterly Report

\* 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 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 upto-date information on GEM-listed issuers.**

*The Stock Exchange 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 (the “Directors”) of Vertex Communications & Technology Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## **HIGHLIGHTS FOR THE THREE-MONTHS ENDED 31ST MARCH 2003**

- For the three months ended 31st March, 2003, the Group's turnover decreased by approximately 54%, as compared to the corresponding period last year to approximately HK\$1.9 million.
- The loss attributable to shareholders recorded approximately HK\$6.7 million.
- Loss per share for the three months ended 31st March 2003 is HK\$1.6 cents.
- The Board of Directors (the "Board") of Vertex Communications & Technology Group Ltd does not recommend the payment of an interim dividend for the three months ended 31st March 2003.

## FINANCIAL RESULTS

The Board of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31st March, 2003, together with the comparative unaudited figures for the corresponding period in 2002 as follows:

	Notes	For the three months ended 31st March	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	2	1,909	4,127
Other operating income		42	28
Staff cost		(4,099)	(2,908)
Subcontracting costs		(1,474)	(1,644)
Depreciation		(345)	(394)
Royalty and production costs		(353)	(856)
Other operating expenses		(2,234)	(1,150)
Loss from operations		(6,554)	(2,797)
Share of results of an associate		(338)	-
Loss before minority interests		(6,892)	(2,797)
Minority interest		145	227
Loss for the period		(6,747)	(2,570)
Loss per share – Basic	4	(1.6 cents)	(0.7 cents)

Notes:

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

These quarterly accounts should be read in conjunction with 2002 annual accounts. The accounting policies and methods of computation used in the preparation of these quarterly accounts are consistent with these used in the annual accounts for the year ended 31st December 2002.

### 2. TURNOVER AND REVENUE

The Company is an investment holding company. The Group is engaged in communications and technology business, specializing in the provision of communications infrastructure services, application and development of content delivery technology and content production, procurement and delivery.

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

### 3. TAXATION

Hong Kong Profits Tax has not been provided for the three months ended 31st March 2003 (three months ended 31st March 2002: Nil) as the Group did not generate any assessable profits in Hong Kong during these periods.

Pursuant to the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises, the Company's subsidiary in the PRC is exempted from income tax for its first two profitable years of operations and is entitled to a 50% relief on the income tax of the PRC for the following three years. No provision for the PRC income tax has been provided as the Company's subsidiary in the PRC has no assessable profit in the PRC for the three months ended 31st March 2003 (three months ended 31st March 2002: Nil).

The Company is exempted from taxation in the Cayman Islands until 2019.

No provision for deferred tax has been provided for the Group because there were no significant timing differences at the balance sheet date (2002: Nil).

### 4. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31st March 2003 is based on the unaudited consolidated loss from ordinary activities attributable to shareholders of approximately HK\$6,747,000 (2002: loss of HK\$2,570,000) and on the weighted average number of 424,771,574 Shares (2002: 369,146,232 Shares) deemed to be in issue throughout the periods.

No diluted loss per share was presented as there were no dilutive potential shares in existence during the three months ended 31st March 2003 (three months ended 31st March 2002: Nil).

**5. DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months ended 31st March 2003 (three months ended 31st March 2002: Nil).

**6. STATEMENT OF MOVEMENT TO AND FROM RESERVE**

The movements in the consolidated reserves of the Group are as follows:

	For the three months ended 31st March				2002		
	2003						
	Share	Accumulated	Special		Retained	Special	
	Premium	Losses	Reserve	Total	Accumulated	Reserve	Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	66,683	(20,330)	1,000	47,353	1,677	1,000	2,677
Net loss attributable to shareholders		(6,747)		(6,747)	(2,570)		(2,570)
At 31st March	66,683	(27,077)	1,000	40,606	(893)	1,000	107

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 reorganization.

Pursuant to PRC law, a wholly foreign owned enterprise, Shanghai Vertex Communications & Technology Limited, 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 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 loss during the periods.

## **HUMAN RESOURCES**

As at 31st March 2003, the Group had 48 employee. Remuneration of the Group's employees includes basic salaries, discretionary bonuses, comprehensive medical coverage, insurance plan and contribution pension schemes.

## **FINANCIAL REVIEW**

For the three months ended 31st March 2003, the Group recorded a substantial decrease in revenue of approximately HK\$2.2 million, representing a drop of approximately 54% over the corresponding period in 2002. The decrease in revenue was mainly attributable to less broadband communication infrastructure services undertaken by the Group for local broadband network carriers and postponed publication of the Chinese language Newsweek Special Edition.

Staff cost for the three months under review increased to approximately HK\$4.1 million from approximately HK\$2.9 million for the same period in the previous year. The increase in staff cost was mainly attributable to payment of directors' remuneration according to service contracts effective from the listing date of the Group on 17 October 2002.

The subcontracting costs for the three months ended 31st March 2003 amounted to approximately HK\$1.4 million, representing approximately 77% of the turnover. For the same period in previous year, the subcontracting cost was approximately HK\$1.6 million or 40% of the turnover. The percentage of subcontracting cost against turnover increased as the main bulk of turnover was generated from broadband communication infrastructure services where a relatively low profit margin is earned.

For the three months ended 31st March 2003, the royalty and production cost amounted to HK\$353,000, representing 18% of the turnover of the Group. The decrease in the royalty and production costs is attributed to the postponed publication of Chinese language Newsweek Special Editions.

The other operating expenses for the three months ended 31st March 2003 amounted to approximately HK\$2.2 million. The increase in other operating expenses was mainly attributable to compliance and public relationship expenses after the Group was listed on GEM, and overseas traveling expenses incurred in business development in the PRC.

## OUTLOOK

The Group's business in first quarter of 2003 is affected by both the global economy slow-down and the outbreak of SARS in Hong Kong. The Group's major clients in telecom sector is greatly affected by less than optimistic environment in the midst of Gulf War 2 and depletion of global investment interests.

The Group anticipates the Hong Kong market for technology services will improve by the third quarter of 2003.

In the short-term future, the Group's digital media business will be affected by the outbreak of SARS in China Mainland, especially in Beijing, where the Group's joint-venture partnership with China Audio & Video Publishing House is in operation. Although the product and services provided by the Group are not retail in nature, the new government regulations in response to the SARS outbreak in Beijing have created new constraints in business operation and development.

The Group anticipates the Beijing market for technology and digital media services will improve by the fourth quarter of 2003.

Shanghai operation has not been affected by the SARS outbreak. The Group anticipates technology services will pick up in the second quarter of 2003.

Preparation of Newsweek Select and MIT Technology Review Chinese Edition are underway. The Group anticipates the development and preparation works for the two magazines will be ready by fourth quarter of 2003.

## SHARE OPTION SCHEME

Pursuant to a written resolution of the sole shareholder dated 22nd July 2002, the Company conditionally adopted the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme, the principal terms of which are set out in the section headed "Pre-IPO Share Option Scheme" and "Post-IPO Share Option Scheme" in Appendix IV to the Prospectus.



## PRE-IPO SHARE OPTION SCHEME

As at 31st March 2003, options to subscribe for an aggregate of 26,968,000 Shares of the Company granted pursuant to the Scheme were outstanding. A portion of each grantee's right to exercise the option that has been conditionally granted under the Pre-IPO Share Option Scheme shall be deemed to have vested on 17th June, 2002 (such portion is fixed on the basis of the grantee's employment period and/or contribution to the Group and as set out in the table below) 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 Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant option. No further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so end on 9th October 2002 (the date of the Prospectus). Details are as follows:

Name of grantee	Exercise price per share <i>HK\$</i>	Number of options		
		Granted on 24.7.2002	Lapsed during the period	Outstanding at 31.3.2003
Directors	0.12	17,668,000	–	17,668,000
	0.21	3,434,000	–	3,434,000
		<u>21,102,000</u>	<u>–</u>	<u>21,102,000</u>
Advisors and consultants	0.12	434,000	–	434,000
	0.45	1,334,000	–	1,334,000
		<u>1,768,000</u>	<u>–</u>	<u>1,768,000</u>
Employees	0.12	3,292,000	87,000	3,205,000
	0.21	963,000	70,000	893,000
		<u>4,255,000</u>	<u>157,000</u>	<u>4,098,000</u>
		<u>27,125,000</u>	<u>157,000</u>	<u>26,968,000</u>

Save as disclosed above, as at 31st March 2003, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

The Board considers that the calculation of value of options granted is not possible as the date of grant of option was before the Listing Date.

## POST-IPO SHARE OPTION SCHEME

Up to the Listing Date, no option has been granted by the Company pursuant to the Post-IPO Share Option Scheme.

## DIRECTORS' AND CHIEF EXECUTIVE INTERESTS IN THE COMPANY

As at 31st March 2003, 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 Interest) Ordinance ("SDI Ordinance") were as follows:

(1) Shares

Director	Notes	Nature of Interest	Number of Shares of HK\$0.01 each in the Company held	% of shareholding in the Company
Dr. Poon Kwok Lim, Steven	1	Corporate and family	282,701,528	57.44
Mrs. Poon Wong Wai Ping	1	Corporate and family	282,701,528	57.44
Mr. Poon Shu Yan, Joseph	2	Corporate and family	16,788,667	3.41
Dr. Lee Peng Fei Allen	3	Corporate and family	11,100,000	2.26

Notes:

- Dr. Poon Kwok Lim, Steven and his spouse, Mrs. Poon Wong Wai Ping, are entitled to exercise or control the exercise of one-third or more of the voting rights of Amazing Nova Corporation. 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 167,886,666 Shares held by Amazing Nova Corporation. 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. 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.

2. Mr. Poon Shu Yan is an executive Director and one of the founders of the Group. As a result of his 10% interest in Amazing Nova Corporation, Mr. Poon Shu Yan is regarded as an Initial Management Shareholder and effectively holds 3.41% interest in the Company.
3. Supreme Lucky Ltd. is wholly and beneficially owned by Dr. Lee Peng Fei Allen and Ms. Choi Yuen Ha Maria. Ms. Choi Yuen Ha Maria is the spouse of Dr. Lee Peng Fei Allen. 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.

Save as disclosed above, as at 31st March 2003, none of the directors or their respective associates had any personal, family, corporate or other interests in the shares of the Company or its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, were required to be notified to the Company and the Stock Exchange.

(2) Directors' and Chief Executive's rights to acquire shares

Director	Number of Shares to be issued upon exercise of options	% of options granted over the issued share capital	Subscription price per Share (HK\$)
Dr. Poon Kwok Lim, Steven	8,334,000	1.693	0.12
Mr Poon Shu Yan, Joseph	8,000,000	1.625	0.12
Mr Lee Shu Fan	2,767,000	0.562	0.21
Mr Tam Chi Keung	1,334,000	0.271	0.12
Ms. Au Yeung Pui Shan Karen	667,000	0.135	0.21

A portion of each grantee's right to exercise the option that has been conditionally granted under the Pre-IPO Share 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 Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant option.

Save as disclosed above, as at 31st March 2003, none of the Directors or their associates were granted option to subscribe for Shares of the Company and none of the options has been exercised.

## **SUBSTANTIAL SHAREHOLDERS**

Other than the interests of the Directors and chief executive as disclosed above, as at 31st March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company has not been notified of any substantial shareholders' interests, representing 10% or more of the issued share capital of the Company.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares since the date of listing of the Company on the GEM of the Stock Exchange on 17th October 2002.

## **SPONSORS' INTERESTS**

The interests of Kingsway Capital Limited ("Kingsway") in the share capital of the Company as at 31st March, 2003 is summarized below:

	<b>As at 31st March, 2003</b>
Kingsway	Nil
Kingsway's employees (excluding directors)	Nil
Kingsway's directors	Nil
Kingsway's associates	24,500,000
	<hr/>
Total	24,500,000
	<hr/>

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.

## **COMPETING INTERESTS**

None of the Directors, the Initial Management Shareholders or the Substantial Shareholders (as defined under the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.

## **AUDIT COMMITTEE**

The Company has established an audit committee on 22nd July 2002 with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The audit committee comprises two independent non-executive Directors, namely Mr. Tsui Yiu Wa Alec, Mr Yeung Pak Sing and Mr. Yeung Pak Sing is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's annual reports and accounts, half-year reports and quarterly reports and providing advice and comments thereon to the board of Directors.

By Order of the Board  
**Dr. Poon Kwok Lim, Steven**  
*Chairman*

Hong Kong Special Administrative Region of the People's Republic of China  
6th May 2003