



2003

3 r d Q u a r t e r l y R e p o r t

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 up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this interim 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 (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: (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.

SUMMARY

- For the nine months ended 30th September 2003, the Group's turnover decreased by approximately 54%, as compared to the corresponding period last year to approximately HK\$5.3 million.
- The loss attributable to shareholders recorded was approximately HK\$19 million.
- Loss per share for the nine months ended 30th September 2003 is HK3.9 cents.
- The Board of Directors (the "Board") of Vertex Communications & Technology Group Limited does not recommend the payment of dividend for the nine months ended 30th September 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 and nine months ended 30th September 2003, together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30th September		Nine months ended 30th September	
		2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)	2002 HK\$'000 (Unaudited)
Turnover	(2)	1,680	3,078	5,321	11,677
Other operating income		13	21	82	75
Staff cost		(3,101)	(2,984)	(10,444)	(8,915)
Subcontracting costs		(1,420)	(2,112)	(4,271)	(6,522)
Depreciation		(316)	(421)	(966)	(1,233)
Royalty and production costs		(116)	(276)	(573)	(1,702)
Other operating expenses		(2,474)	(1,499)	(8,044)	(4,306)
Loss from operations	(4)	(5,734)	(4,193)	(18,895)	(10,926)
Share of results of an associate		(79)	-	(567)	-
Loss before taxation		(5,813)	(4,193)	(19,462)	(10,926)
Taxation credit	(5)	-	81	-	81
Loss before minority interests		(5,813)	(4,112)	(19,462)	(10,845)
Minority interests		106	11	340	588
Net loss for the period		(5,707)	(4,101)	(19,122)	(10,257)
Loss per share – Basic	(6)	HK(1.17) cents	HK(1.11) cents	HK(3.93) cents	HK(2.779) cents

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the nine months ended 30th September 2003

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated results of the Group have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The consolidated results of the Group are unaudited but have been reviewed by the audit committee of the Company.

The accounting policies and basis of preparation adopted for the preparation of the consolidated results of the Group are consistent with those adopted by the Group for its annual results for the financial year ended 31st December 2002 except that the Group has adopted SSAP 34 "Employee benefits" which prescribes the accounting and disclosure for employee benefits. However, this SSAP has no major impact on the consolidated results of the Group.

2. TURNOVER

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 nine months ended 30th September 2003 (nine months ended 30th September 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 nine months ended 30th September 2003 (nine months ended 30th September 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 (nine months ended 30th September 2002: Nil).

4. LOSS PER SHARE

The calculation of basic loss per share for the nine months ended 30th September 2003 is based on the unaudited consolidated loss from ordinary activities attributable to shareholders of approximately HK\$19,122,000 (nine months ended 30th September 2002: loss of HK\$10,257,000) and on the weighted average number of 486,465,136 Shares (nine months ended 30th September 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 and nine months ended 30th September 2003 (three months and nine months ended 30th September 2002: Nil)

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30th September 2003 (nine months ended 30th September 2002: Nil).

6. STATEMENT OF MOVEMENT TO AND FROM RESERVE

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

	Share capital (unaudited) HK\$'000	Share premium (unaudited) HK\$'000	Special reserve (unaudited) HK\$'000	Retained profits/ losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
At 1st January 2002			1,000	1,677	2,677
Share issued at premium	4,922	76,660			81,582
Share issue expenses		(9,977)			(9,977)
Loss for the nine months ended 30th September 2002				(10,257)	(10,257)
At 30th September 2002	<u>4,922</u>	<u>66,683</u>	<u>1,000</u>	<u>(8,580)</u>	<u>(64,025)</u>
At 1st January 2003	4,922	66,683	1,000	(20,330)	52,275
Net loss for the period				(19,122)	(19,122)
At 30th September 2003	<u>4,922</u>	<u>66,683</u>	<u>1,000</u>	<u>(39,452)</u>	<u>33,153</u>

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.

FINANCIAL REVIEW

For the nine months ended 30th September 2003, the Group recorded a decrease in revenue of approximately HK\$6.3 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 delay in publishing the Chinese language Newsweek.

Staff cost for the nine months under review increased to approximately HK\$10.4 million from approximately HK\$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 17th October 2002.

The subcontracting costs for the nine months ended 30th September 2003 amounted to approximately HK\$4.2 million, representing approximately 80% of the turnover. For the same period in previous year, the subcontracting cost was approximately HK\$6.5 million or 56% 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 nine months ended 30th September 2003, the royalty and production cost amounted to approximately HK\$573,000, representing approximately 11% of the turnover of the Group. The decrease in the royalty and production costs was attributed to the postponed publication of Chinese language Newsweek.

The other operating expenses for the nine months ended 30th September 2003 amounted to approximately HK\$8 million. The increase in other operating expenses was mainly attributable to:

- (1) Disposal of furniture and fixture when the subsidiary of the Company in Shanghai moved to a new office as part of the exercise to reduce operating cost;
- (2) Compliance, legal and public relationship expenses after the Group was listed on GEM;
- (3) Overseas traveling expenses incurred in business development in the PRC; and
- (4) Business development expenses incurred in pursuing business opportunities in the PRC and Hong Kong.

OUTLOOK

The Group's businesses in 2003 have been challenging. The market for technology services and network engineering slightly improved in the third quarter of 2003, and a new revenue stream has been established through the operation presence in Macau. The Group believes that the technology and network engineering business will improve in the 4th quarter 2003.

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The Group's Beijing operation is achieving operation break-even, and the Group believes that the Beijing market for technology and digital media services will improve in the fourth quarter 2003.

Newsweek Select, a monthly Chinese language magazine based on the contents of the Newsweek magazine, is now available in Hong Kong and selective overseas markets. Circulation will continue to improve and it will generate significant advertising revenue in the year 2004.

Preparation of MIT Technology Review Chinese Edition continues on schedule. The first round of editorial work is now complete. The Group is concluding agreements with the advertising and circulation partners for the magazine, it anticipates that the MIT Technology Review Chinese Edition would be launched in the fourth quarter 2003.

The Group's subsidiary company, East Art International Limited ("East Art") was commissioned to organize the western artists to perform in the Hong Kong Harbour Fest 2003. The event was successfully completed in November, and East Art's financial data will be reflected in the Group's fourth quarter results. The Group is now being approached by foreign entities to organize events, and hence this side of the business is likely to expand further in the year 2004.

SHARE OPTION SCHEME

Pursuant to a written resolution of the sole shareholder of the Company 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 30th September 2003, options to subscribe for an aggregate of 25,634,000 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 options 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	Number of options		
		Granted on 24.7.2002	Lapsed during the period	Outstanding at 30.9.2003
	HK\$			
Directors	0.12	17,668,000	1,334,000	16,334,000
	0.21	3,434,000	-	3,434,000
		21,102,000	-	19,768,000
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	1,491,000	25,634,000

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 30th September 2003, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(1) Shares of the Company

8				Number of shares of HK\$0.01 each in the Company held	% of shareholding in the Company
Director	Notes	Nature of Interest			
Mr. Poon Kwok Lim, Steven	1	Corporate and family	282,701,528	57.44	
Mr. Lee Peng Fei, Allen	2	Corporate and family	11,100,000	2.26	

Notes:

- Each of Mr. Poon Kwok Lim, Steven and his spouse, Mrs. Poon Wong Wai Ping, is entitled to exercise or control the exercise of one-third or more of the voting rights of Amazing Nova Corporation. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed, by virtue of the SFO, to be interested in the same 167,886,666 shares held by Amazing Nova Corporation. Matrix Worldwide Corporation is wholly and beneficially owned by Mr. Poon Kwok Lim, Steven. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed, by virtue of the SFO, to be interested in the same 61,606,666 shares held by Matrix Worldwide Corporation. Forever Triumph Limited is wholly and beneficially owned by Mr. Poon Kwok Lim, Steven. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed, by virtue of the SFO, to be interested in the same 53,208,196 shares held by Forever Triumph Limited.

2. Supreme Lucky Ltd. is wholly and beneficially owned by Mr. Lee Peng Fei, Allen and his spouse Ms. Choi Yuen Ha, Maria, as to 50% and 50% respectively. Each of Mr. Lee Peng Fei, Allen and Ms. Choi Yuen Ha, Maria is deemed, by virtue of the SFO, to be interested in the same 11,100,000 shares held by Supreme Lucky Ltd.

(2) Shares in Associated Corporation of the Company

Director	Note	Name of associated corporation
Mr. Poon Kwok Lim, Steven	1	SinoWorld CNW Publishing Limited (華宇出版有限公司)

Note:

1. Mr. Poon Kwok Lim, Steven is the beneficial owner of Forever Triumph Limited, which owns 10% of SinoWorld CNW Publishing Limited (華宇出版有限公司), a company of which the Company is indirectly interested in 64% of its share capital.

Save as disclosed above, as at 30th September 2003, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they have taken or deemed to have taken under such provision of the SFO) or which were required to be entered in the register required to be kept under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred in Rule 5.40 to 5.59 of the GEM Listing Rules.

(3) 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\$)
Mr. 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
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 options granted under the Pre-IPO Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant option.

Save as disclosed above, as at 30th September 2003, none of the Directors or chief executives of the Company or their respective associates were granted option to subscribe for shares of the Company and none of the options has been exercised.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware as at 30th September 2003, the persons/entities (including Directors or chief executives of the Company) who have interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

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Name	Notes	Number of shares held	Shareholding percentage
Mr. Poon Kwok Lim	1, 2, 3	282,701,528	57.44
Mrs. Poon Wong Wai Ping	1, 2, 3	282,701,528	57.44
Amazing Nova Corporation	1	167,886,666	34.11
Matrix Worldwide Corporation	2	61,606,666	12.51
Forever Triumph Limited	3	53,208,196	10.81
Bahrain Middle East Bank (E.C.)	4	28,724,812	5.84
SBI Strategic Holdings Limited	5	45,000,000	9.14
Softbank Corp	5	45,000,000	9.14

Notes:

- Amazing Nova Corporation is beneficially owned as to 40% by Mr. Poon Kwok Lim, Steven (a Director), as to 40% by Mrs. Poon Wong Wai Ping (spouse of Mr. Poon Kwok Lim, Steven), as to 10% by Mr. Poon Shu Yan, Joseph (a Director) and as to the remaining 10% by Ms. Poon Ching Mei (daughter of Mr. Poon Kwok Lim, Steven). Mrs. Poon Wong Wai Ping and Ms. Poon Ching Mei have no management role in the Group. Under the SFO, each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed to be interest in the same 167,886,666 shares held by Amazing Nova Corporation as each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is entitled to exercise more than one-third of the voting power at a general meeting of Amazing Nova Corporation.
- Matrix Worldwide Corporation is wholly and beneficially owned by Mr. Poon Kwok Lim, Steven. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed, by virtue of SFO, 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 Mr. Poon Kwok Lim, Steven. Each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed, by virtue of SFO, to be interested in the same 53,208,196 shares held by Forever Triumph Limited.
4. Bahrain Middle East Bank (E.C.) is a company listed on the Bahrain Stock Exchange since June 1989. Its principal business is banking and equity investment. Bahrain Middle East Bank (E.C.) has no involvement in the management of the Group.
5. SBI Strategic Holdings Limited holds 45,000,000 shares of the Company. As at 30th September 2003, SBI Strategic Holdings Limited was the controlled corporation of Softbank Corp and thus Softbank Corp is deemed to be interested in 45,000,000 shares of the Company.

Save as disclosed above, as at 30th September 2003, the Directors are not aware of any other person who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of SFO, or who is interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group.

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

During the review period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

SPONSORS' INTERESTS

As updated by the Company's sponsor, Kingsway Capital Limited ("Kingsway"), the interests of Kingsway in the share capital of the Company as at 30th September 2003 is summarized below:

	As at 30th September 2003
Kingsway	Nil
Kingsway's employees (excluding directors)	Nil
Kingsway's directors	Nil
Kingsway's associates	18,000,000
Total	<u>18,000,000</u>

Pursuant to the Sponsor's Agreement dated 8th October 2002 and 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 Sponsor's 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 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 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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the review period.

AUDIT COMMITTEE

As required by Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee comprises two independent non-executive Directors, namely Mr. Tsui Yiu Wa Alec and Mr. Yeung Pak Sing, with Mr. Yeung Pak Sing being 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
Vertex Communications & Technology Group Ltd
Mr. Poon Kwok Lim, Steven
Chairman

Hong Kong Special Administrative Region of the People's Republic of China
11th November 2003