* For identification purposes only

VERTEX

Communications & Technology Group Limited

(Incorporated in the Cayman Islands with Limited Liability)

(慧峯集團有限公司)*

2003

ANNUAL REPORT

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.

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 Securities on the GEM 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: 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.

CONTENTS

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Lee Peng Fei Allen, CBE, BS, FHKIE, JP

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 register 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
Ms. Au Yeung Pui Shan Karen

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

Dear shareholders

On behalf of the board of Directors (the "Board"), I am pleased to present to the shareholders the audited results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2003.

Following the signing of the worldwide sole licensee agreement with Newsweek Inc. in December 2002, the Group embarked upon the production of a Chinese-language version of the Newsweek magazine in the beginning of the year 2003. In June 2003, Newsweek, Inc. granted its agreement to the design of the magazine, which is now called《新聞周刊 • 選粹月刊》Newsweek Select. The magazine was soft-launched in Hong Kong in September 2003. At the time of writing this review, Newsweek Select has been granted approval for distribution in China Mainland.

In January 2003, the Group concluded a worldwide sole licensee agreement with Massachusetts Institute of Technology to publish its MIT Technology Review《科技評論》in Chinese language. For most part of the year 2003, MIT Technology Review was in a development stage. I am pleased to report that the first issue of magazine has been published in Hong Kong and China Mainland.

With the addition of MIT Technology Review, the Group now has two premier Chinese-language magazines published for Hong Kong and the China Mainland markets. The Group will continue to focus its efforts on bringing international renowned magazines into the Chinese language markets, and I expect there would be conclusion of new licensee agreements in the year 2004.

To meet the advertising requirements of the Group's media portfolio, the Group acquired a 16% equity interest of Teamwork Advertising Company Limited 天意華創峰廣告有限公司 ("Teamwork") in May 2003. Teamwork is a successful and energetic advertising company based in Beijing, having offices throughout China. The Group expects to benefit from Teamwork's extensive advertising network.

With the publishing licenses, the import approvals, and the equity interest in Teamwork, the needed ingredients of the Group's print media business are now in place and in good shape. I expect that the print media will form a major part of the Group's business in the year 2004 and will bring profits accordingly.

The year 2003 was a challenging year for Hong Kong. Following the continued downturn of the Hong Kong economy, the Iraq War, and the outbreak of the Severe Acute Respiratory Syndrome ("SARS"), Hong Kong's business environment was difficult in the year under review. Business in these sectors essentially grinded to a halt during the SARS period and was only slowly gaining strength again well after the summer of 2003.

The Group's information technology and engineering services businesses were particularly hard hit in the year 2003. Many companies cut their corporation spending under the unfavourable economic environment, resulting in stagnation in information technology and engineering services activities. Payments for work done were slow and new work was put on hold in general.

We see signs of recovery at the beginning of the year 2004. Although the economy is still in a deflationary mode, the rate of deflation has narrowed substantially. With the implementation of the Closer Economic Partnership Arrangement gathering speed, we expect Hong Kong's economy to register noticeable growth in 2004. And of course the Group's print media business is now solidly established.

The Directors and management of the Group is optimistic about the year 2004 and believe that the results that year will be promising.

Poon Kwok Lim Steven
Chairman
Hong Kong

16th March, 2004

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, United States of America ("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 USA. 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.

In 2002, SinoWorld CNW Publishing Limited, 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.

Newsweek Select is available in Hong Kong and Macau since September 2003. Electronic publishing of Newsweek Select will commence in 2004. It is anticipated that advertising and circulation revenue from Newsweek Select will contribute to the Group's overall performance in 2004.

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.

MIT Technology Review is one of the most respected technology magazines in the USA. It is a monthly magazine for entrepreneurs in the technology age, focusing in business application of new technologies. The USA edition has a publishing history of over 100 years and has reached over 1 million readers. The magazine also launched 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 target the China Mainland market in 2004.

For the China Mainland market, the Group partners with Shanghai Science & Technology Publishers to publish the magazine. The partnership allows the magazine to be sold nationwide in retail shops and newsstands and will substantially increase the popularity of the brand.

Shanghai Science & Technology Publishers is one of the oldest magazine and book publishing companies in Shanghai. Among a number of publications, they have been publishing a science magazine for more than 20 years and have established an extensive nationwide magazine distribution network.

MIT Technology Review Chinese Edition has been available in Hong Kong and China Mainland since January 2004. It is anticipated that advertising and circulation revenue from MIT Technology Review Chinese Edition will contribute to the Group's overall performance in 2004.

Event Management

In 2003, the Group purchased 51% of East Art International Limited ("East Art"), which specializes in concert and event production and management. In October 2003, East Art reached a contractor agreement with American Chamber of Commerce to coordinate and manage Western artists for the Hong Kong Harbour Fest 2003.

East Art plans to expand its business to provide conferences, forums and music concerts in the China Mainland.

Media Advertising

To further develop the media business, the Group needs a reliable workforce in media advertising in China. The management, since acquiring the license to publish Newsweek Select, had been searching for a partnership with a reputable advertising company in China. The management was in the opinion that a contractual relationship with an advertising company is not an adequate arrangement as it only presents a loose commitment from the partner on the main revenue source of the Group's media business. And since the Group is planning to bring more international media into the China market, the management decided to take a small equity stake in an advertising company in China to secure the Group's development potential in the media business.

In June 2003, the Group acquired 16% of Teamwork. Teamwork currently has exclusive advertising agreements with 3 in-flight magazines, Lifeweek <三聯生活周刊>, one of the most popular current-affair magazines in China Mainland, and a number of non-exclusive arrangements with other magazines. Teamwork has a head office in Beijing, and regional and representative offices in 17 cities including Shanghai and Guangzhou.

The Group has entered into a 4-year exclusive advertising agreement with Teamwork on advertising on Newsweek Select. In the exclusive agreement, Teamwork will be the sole agent to represent Newsweek Select in China Mainland. Teamwork guarantees advertising revenue for the 4-year period based on an increasing guarantee amount model.

Sino East Oil Services Ltd.

In January 2004, the Group has entered into a joint-venture agreement with Specialist Oilfield Services K.S.C. ("Specialist Oilfield"), a Kuwaiti company, which is principally engaged in the oil-related business in the Middle East. The joint venture company, called Sino East Oil Services Ltd. ("Sino East"), is 50% owned by the Group and 50% by the Specialist Oilfield.

Sino East is building a Chinese and Arabic web site to facilitate the provision of information regarding oil production and oil supply and consumption in the Middle East and Greater China. The web site is expected to complete in mid 2004.

Digital Media

Digital Media Business in Beijing

The Group and China Audio & Video Publish House ("CAV") formed a joint-venture company, Beijing CAV Vertex Digital Technology Company Limited (北京中錄慧峯數碼技術有限公司) ("CAV-Vertex"). The Group owns 51% 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.

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.

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.

Due to the global economic downturn, especially on the telecommunication sector, the stagnated economic development, and the outbreak of SARS in Hong Kong, the Group's network engineering business suffered a slow year in 2003. The management anticipates that the market environment in 2004 for telecom network services will improve slightly.

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.

Due to the global economic downturn, the stagnated economic development, and the outbreak of SARS in Hong Kong, the Group's system integration and solution services business suffered a slow year in 2003. The management anticipates that the market environment in 2004 for system integration and solution services will improve slightly.

FINANCIAL REVIEW

Results

For the year of 2003, the Group recorded a turnover of about HK$6.6 million. About 62% of the turnover was contributed by the Group's network engineering business. The turnover for the year under review represents a decrease of approximately 51% compared with the previous year. The decrease in revenue was attributable to the decrease in broadband communication infrastructure services undertaken by the Group for local broadband network carriers and deferral of publication of the Chinese language Newsweek in the People's Republic of China ("PRC").

Other revenue for the year ended 31st December, 2003 amounted to HK$85,000 (2002: HK$173,000), which mainly included bank interest income generated from the cash balance deposited with financial institutions.

Staff costs for the year under review increased to approximately HK$15 million from approximately HK$12.5 million in the previous year. The increase in staff costs 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 year under review amounted to approximately HK$5 million, representing approximately 81% of the turnover. In previous year, the subcontracting costs was approximately HK$8 million or 60% of the turnover. The decrease in subcontracting cost is in line with the decrease in turnover. The increase in percentage of subcontracting costs against turnover was due to the fact that the main bulk of turnover was generated from broadband communication infrastructure where a relatively low profit margin is earned.

For the year ended 31st December, 2003, the royalty and production costs amounted to HK$3 million. The increase in the royalty and production costs was attributed to royally paid during the year and production cost in relation to soft launch of Chinese language Newsweek in Hong Kong since September 2003.

The other operating expenses for the year ended 31st December, 2003 sustained at about HK$12 million despite the total business development expenses decreased by HK$2.8 million as compared to last year, it is mainly attributed to the following factors:

(1) Compliance, legal and public relationship expenses after the Group had been listed on GEM; and

(2) Increase in overseas traveling expenses incurred in business development in the PRC and the USA..

Net loss attributable to shareholders for the year was HK$35.6 million as compared to net loss of the preceding year of approximately HK$22.0 million.

Liquidity, Financial Resources and Capital Structure

As at 31st December, 2003, shareholders' funds of the Group amounted to approximately HK$16.7 million (2002: HK$52.2 million). The Group had total assets of approximately HK$22 million (2002: HK$56 million), including net cash and bank balances of approximately HK$1.5 million (2002: HK$32.2 million). The Group's current liabilities amounted to approximately HK$5.2 million (2002: HK$2.7 million) and it had no bank facilities available. As at 31st December, 2003, the Group had a current ratio of approximately 1.46 as compared to that of 16.5 at 31st December, 2002. The total liabilities over the shareholders' fund of the Group is 0.3 (2002: 0.05) as at 31st December, 2003. On 26th February, 2004, the Group raised net proceeds of HK$14.8 million from the issue of bonds in an aggregate amount of HK$15.5 million. According to the Directors, the Group has adequate financial resources to meet its ongoing operations after taking into account of the proceeds raised.

During the year ended 31st December, 2003, the Group financed its operations with its own working capital, and internally generated cash flow.

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 had no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the financial year ended 31st December, 2003.

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 Company's Prospectus dated 9th 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 31st December, 2003, the Group did not have any significant contingent liabilities (2002: nil). Details on the contingent liabilities are set out in note 29 to the financial statements.

Significant Investment

Except for an acquisition of a 16% equity interest in 天意華創峰廣告有限公司 on 22nd May, 2003 for a consideration of HK$6 million, there was no other material acquisition or disposal of investment for the year ended 31st December, 2003.

Employee

As at 31st December, 2003, the Group had a total of approximate 50 (2002: 47) staff based in the PRC and Hong Kong. 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 labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

BOARD OF DIRECTORS

Executive Directors

Mr. Poon Kwok Lim Steven, JP, aged 60, is the Chairman of the Group. Mr. Poon has been employed by the Group since May 1998 and was one of the founders of the Group in 1998. Mr. 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. Mr. Poon was formerly the General Manager and Chief Operating Officer of China Light & Power Company Limited. Mr. 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. Mr. Poon is currently the managing director of Bright World Enterprise Limited and an independent non-executive director of China Merchants China Direct Investments Limited. Mr. Poon was a founding Council Member of the Hong Kong University of Science and Technology. Mr. Poon is the father of Mr. Poon Shu Yan Joseph.

Mr. Poon Shu Yan Joseph, aged 33, 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 Mr. Poon Kwok Lim Steven.

Mr. Lee Shu Fan aged 40, 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, with responsibility for the origination and execution of all Nikko group's Asia (ex-Japan) equity capital markets activities. Mr. Lee was also the Vice President of Equity Capital Markets at W.I. Carr Indosuez Capital Asia during the period from 1984 to 1996, specialising in the structuring, execution and marketing of equity investments.

Ms. Au Yeung Pui Shan Karen, aged 31, 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

Mr. Lee Peng Fei Allen, CBE, BS, FHKIE, JP, aged 63, became a non-executive Director of the Company in March 2002. Mr. 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. Mr. Lee was also a member of the Hong Kong Executive Council from 1985 to 1992.

Independent non-executive Directors

Mr. Tsui Yiu Wa Alec, aged 55, joined the Group in March 2002. He is one of the founders of WAG Financial Services Group Limited, 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 Regent Pacific Group Limited from August 2000 to February 2001. Prior to joining Regent Pacific Group Limited, he was the chief operating officer of the Hong Kong Exchange and Clearing Limited 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 54, 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 was the Council Member of the Kwun Tong District Council of Hong Kong from January 2000 to December 2003 and he is 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.

SENIOR MANAGEMENT

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 specialising in general business assurance and computer security assurance sections. 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 from 1996 to 1999. 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 USA. 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.

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	
▪ Continue to test the capability of 3G network in delivering multimedia content	▪ Because of the uncertainties of the future prospects in respect of 3G deployment in the Greater China Region, the development of 3G capability has been delayed in accordance with market situation
Develop cross-media content delivery business in the Greater China Region	
▪ Launch the electronic publishing platform equipped with content delivery technologies	▪ Development of electronic publishing platform will be delayed until the print version of Newsweek Select and MIT Technology Review are well received by the market
Strengthen its expertise in communication technology	
▪ Integrate the improved Internet payment gateway on subscription-based content and electronic publishing platform	▪ Integration will take off when electronic publishing platform is ready to launch
▪ Develop interactive voice response system and call centre by utilizing text-to-speech and voice recognition technologies	▪ Development of voice technologies will be deferred until the market acceptance of this technology is more mature
Develop new products and services, and strengthen its presence in the Greater China Region	
▪ Negotiate with PRC and international media companies to expand the Group's sources of content	▪ On-going

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

The net proceeds raised from the Group's IPO on the GEM board of The Stock Exchange after deduction of related expenses pursuant to the IPO, were approximately HK$40 million. The net proceeds were applied in the following areas:

	Use of the net proceeds as set out in the Prospectus *HK$'000*	The net proceeds utilized up to 31st December, 2003 *HK$'000*	*Notes*
Expand network infrastructure services in the Greater China Region	2,500	–	*(1)*
Develop cross-media content delivery business in the Greater China Region	6,200	5,103	*(2)*
Develop and strengthen its expertise in communication technology	7,600	7,479	
Develop new products and services, and strengthen its presence in the Greater China Region	12,200	27,429	*(3)*
Total	28,500	40,011	

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the prospectus. In accordance with the actual development of the market, the Group has made corresponding amendments to its business objectives.

Notes:

(1) In accordance with the changes in market conditions, development of broadband and 3G network in the Greater China Region has been deferred until the 3G market is more mature.

(2) Certain projects in cross-media business was postponed due to unfavorable market condition, therefore, proceeds applied in this areas is less than expected.

(3) The excess utilization of fund as compared to the intended use of net proceeds as stated in the prospectus is mainly attributable to (a) the acquisition of equity investment in strategic business partners in the PRC; and (b) the development and production costs incurred in development of Chinese Newsweek Select and MIT Technology Review.

From the issue of bonds on 26th February, 2004, the Group raised net proceeds of approximately HK$14.8 million from the issue of bonds in an aggregate principal amount of HK$15.5 million. The net proceeds from the issue of bonds will be used as general working capital of the Group and will be applied in line with the business objectives as disclosed under the section headed "Statement of Business Objectives and Strategies" of the prospectus of the Company dated 9th October, 2002, in particular, the development in the Company's cross-media content delivery business in the Greater China Region and introduction of well-known international magazines into the PRC media market.

In consideration of the subscription of the bonds, the Group issued and allotted warrants for no extra consideration to the bonds' subscriber. Full exercise of the warrants would result in the issue of 41,010,000 new shares of HK$0.474 each and in the receipt of net proceeds amounting to HK$19.4 million assuming that the subscription price is not adjusted. It is intended the net proceeds will be used as general working capital of the Group and will be applied in line with the business objectives as disclosed under the section headed "Statement of Business Objectives and Strategies" of the prospectus of the Company dated 9th October, 2002.

The Directors have pleasure in presenting the annual report and the audited financial statements for the year ended 31st December, 2003.

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 solution services as well as production and procurement of media contents. Particulars of the subsidiaries of the Company are set out in note 13 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31st December, 2003 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 28 to 30.

The Directors do not recommend the payment of a final dividend in respect of the year ended 31st December, 2003.

FINANCIAL SUMMARY

A summary of the results of the Group for the past four financial years ended 31st December, 2003 and the assets and liabilities of the Group for the past three financial years is set out on pages 71 and 72 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 11 to the financial statements.

INTANGIBLE ASSET

Details of the movements in the Group's intangible asset during the year are set out in note 12 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and the Group's associates are set out in notes 13 and 14 respectively to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 22 to the financial statements.

RESERVES

Details of movements during the year in the reserves of the Group and the Company are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st December, 2003, 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$9,946,000, which comprises of the share premium, capital reserve and accumulated losses.

DIRECTORS

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

Executive Directors:

Mr. Poon Kwok Lim Steven *(Chairman)*
Mr. Poon Shu Yan Joseph
Ms. Au Yeung Pui Shan Karen
Mr. Lee Shu Fan *(resigned on 29th February, 2004)*
Mr. Tam Chi Keung *(resigned on 1st April, 2003)*

Non-executive Directors:

Mr. Lee Peng Fei Allen
Mr. Lee Shu Fan *(appointed on 29th February, 2004)*
Professor Lin Chui Chau, Otto *(resigned on 1st June, 2003)*

Independent non-executive Directors:

Mr. Tsui Yiu Wa, Alec
Mr. Yeung Pak Sing

In accordance with articles 86 and 87 of the Company's Articles of Association, Mr. Lee Peng Fei Allen, Mr. Lee Shu Fan and Ms. Au Yeung Pui Shan Karen 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 Directors 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 the date of appointment.

Save as disclosed above, no other Directors 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 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 are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register 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) Long Position in the shares of the Company

		Nature of Interest					
Name of Director	Capacity	Personal interest	Family interests	Corporate interests	Other interests	Total	Percentage of shareholding
Mr. Poon Kwok Lim Steven *(Note)*	Interest of a controlled corporation	–	–	304,701,528	–	304,701,528	61.71%

Note:

Amazing Nova Corporation is beneficially owned as to 40% by Mr. Poon Kwok Lim Steven, 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 and as to the remaining 10% by Ms. Poon Ching Mei (daughter of Mr. Poon Kwok Lim Steven). Neither Mrs. Poon Wong Wai Ping and Ms. Poon Ching Mei has any 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 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. Under the SFO, each of Mr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping is deemed 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. Under the SFO, each of Mr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping is deemed to be interested in the same 53,208,196 Shares held by Forever Triumph Limited.

Bright World Enterprise Limited is beneficially owned as to 80% by Mr. Poon Kwok Lim Steven and as to 20% by Mrs. Poon Wong Wai Ping. Under the SFO, each of Mr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping is deemed to be interested in the same 22,000,000 Shares held by Bright World Enterprise Limited.

(2) Long positions in associated corporation

Name of Director	Name of associated corporation	Number and class of shares held	Percentage of shareholding
Mr. Poon Kwok Lim Steven *(Note)*	SinoWorld CNW Publishing Limited	100,000 ordinary shares	10%

Note: Mr. Poon Kwok Lim Steven is the beneficial owner of the entire issued share capital of Forever Triumph Limited, which owns 10% of SinoWorld CNW Publishing Limited, a subsidiary of the Company.

(3) Rights to acquire the shares in the Company

Pursuant to the Pre-IPO Share Option Scheme and/or the Share Option Scheme, certain Directors were granted share options to subscribe for the shares of the Company, details of which were as follows:

			Number of share options			
Name	Capacity	Exercise price per share *HK$*	outstanding at 1.1.2003	lapsed during the year	outstanding at 31.12.2003	Number of underlying shares
Mr. Poon Kwok Lim Steven	Beneficial owner	0.12	8,334,000	–	8,334,000	8,334,000
Mr. Poon Shu Yan Joseph	Beneficial owner	0.12	8,000,000	–	8,000,000	8,000,000
Mr. Lee Shu Fan	Beneficial owner	0.21	2,767,000	–	2,767,000	2,767,000
Ms. Au Yeung Pui Shan Karen	Beneficial owner	0.21	667,000	–	667,000	667,000
Mr. Tam Chi Keung	Beneficial owner	0.12	1,334,000	1,334,000	–	–
			21,102,000	1,334,000	19,768,000	19,768,000

Note: A portion of each grantee's right to exercise the options that have 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 and 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 17th October 2002, the listing date of the Company. Any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant option.

Save as disclosed herein, as at 31st December, 2003, none of the Directors or chief executives of the Company or their respective Associates had any interests or short positions in any shares, underlying shares or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provision 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.

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 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 27 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

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.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS

So far as is known to the Directors, as at 31st December, 2003, the persons/companies (including a Director or chief executive 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:

Name of shareholder	Notes	Capacity	Number of issued shares	Number of shares issuable upon the exercise of options	Percentage of the issued capital of the Company
Mr. Poon Kwok Lim Steven	i, ii, iii & iv	Held by controlled corporations	304,701,528	8,334,000	63.60%
Mrs. Poon Wong Wai Ping	i, ii, iii & iv	Held by controlled corporations	304,701,528	–	61.91%
Amazing Nova Corporation	i	Beneficial owner	167,886,666	–	34.11%
Matrix Worldwide Corporation	ii	Beneficial owner	61,606,666	–	12.52%
Forever Triumph Limited	iii	Beneficial owner	53,208,196	–	10.81%
Bright World Enterprise Limited	iv	Beneficial owner	22,000,000	–	4.47%
Bahrain Middle East Bank (E.C.)	v	Beneficial owner	28,724,812	–	5.84%

Notes:

i. Amazing Nova Corporation is beneficially owned as to 40% by Mr. Poon Kwok Lim Steven, 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 and as to the remaining 10% by Ms. Poon Ching Mei (daughter of Mr. Poon Kwok Lim Steven). Neither Mrs. Poon Wong Wai Ping and Ms. Poon Ching Mei has any 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 interested in the same 167,886,666 Shares held by Amazing Nova Corporation.

ii. Matrix Worldwide Corporation is wholly and beneficially owned by Mr. Poon Kwok Lim Steven. Under the SFO, each of Mr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping is deemed to be interested in the same 61,606,666 Shares held by Matrix Worldwide Corporation.

iii. Forever Triumph Limited is wholly and beneficially owned by Mr. Poon Kwok Lim Steven. Under the SFO, each of Mr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping is deemed to be interested in the same 53,208,196 Shares held by Forever Triumph Limited.

iv. Bright World Enterprise Limited is beneficially owned as to 80% by Mr. Poon Kwok Lim Steven and as to 20% by Mrs. Poon Wong Wai Ping. Under the SFO, each of Mr. Poon Kwok Lim Steven and Mrs. Poon Wong Wai Ping is deemed to be interested in the same 22,000,000 Shares held by Bright World Enterprise Limited.

v. 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.

So far as is known to the Directors, as at 31st December 2003, the following persons/companies were interested in 10% or more of the equity interests of the subsidiaries of the Company:

Name of Subsidiary	Name of Shareholder	Number and class of shares held	Percentage of shareholding
VCTG Amonic Solutions (Macau) Limited	保得工程有限公司	not applicable	29%
VCTG Amonic Solutions (Macau) Limited	Importacao E Exportacao Tai Seng Hong (Internacional), Limitada	not applicable	20%
East Art International Limited	Seitzross Enterprises Ltd.	490 ordinary shares	49%
SinoWorld Media Co. Ltd.	Sino United Publishing (Holdings) Limited	1,033,000 ordinary shares	20%
SinoWorld CNW Publishing Limited	Mr. Poon Kwok Lim Steven	100,000 ordinary shares	10%
SinoWorld CNW Publishing Limited	Ali Khalifa Athibi Al-Sabah	100,000 ordinary shares	10%
北京中錄慧峯數碼技術有限公司	中國錄音錄像出版總社	not applicable	49%

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person who has an interest or short position 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 10% 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.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 28 to the financial statements.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTING SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR SUPPLIERS AND CUSTOMERS

The five largest customers of the Group for the year accounted for approximately 69% of the Group's turnover. The Group's largest customer accounted for approximately 16% of its turnover for the year.

The five largest suppliers of the Group for the year accounted for approximately 50% of the Group's purchase. The Group's largest supplier accounted for approximately 13% 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 GEM Listing Rules of the Stock Exchange) 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.

SPONSORS' INTERESTS

As updated by the Company's sponsor, Kingsway Capital Limited ("Kingsway"), the interests of Kingsway in the share capital of the Company at 31st December, 2003 is summarised below.

	At 31st December, 2003
Kingsway	Nil
Kingsway's employees (excluding directors)	Nil
Kingsway's directors	Nil
Kingsway's associates	18,000,000
Total	18,000,000

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 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.

During the year, the audit committee has held four meetings.

POST BALANCE SHEET EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 31 to the financial statements.

AUDITORS

Messrs. Deloitte Touch 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

Poon Kwok Lim Steven
CHAIRMAN

16th March, 2004

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

We have audited the financial statements on pages 28 to 70 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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, 2003 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, 16th March, 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2003

	NOTES	2003 HK$'000	2002 HK$'000
Turnover	4	**6,586**	13,366
Other operating income		**85**	173
Impairment loss recognised in respect of goodwill	12	**(2,613)**	–
Depreciation		**(1,287)**	(1,641)
Royalty and production costs		**(3,060)**	(2,041)
Subcontracting costs		**(5,315)**	(7,983)
Staff costs		**(15,305)**	(12,540)
Other operating expenses		**(12,200)**	(12,125)
Loss from operations	6	**(33,109)**	(22,791)
Allowance for amount due from an associate		**(1,006)**	–
Share of results of associates		**(1,895)**	(72)
Loss before taxation		**(36,010)**	(22,863)
Taxation credit	8	**–**	81
Loss before minority interests		**(36,010)**	(22,782)
Minority interests		**458**	775
Net loss for the year		**(35,552)**	(22,007)
Loss per share	10		
– Basic and diluted		**HK7.22 cents**	HK5.58 cents

At 31st December, 2003

	NOTES	2003	2002
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment	11	4,398	5,735
Goodwill	12	282	3,289
Interests in associates	14	–	887
Investment securities	15	6,000	–
Deferred expenditure for publication		4,015	–
		14,695	9,911
Current assets			
Inventories	16	–	71
Trade receivables	17	2,684	4,818
Amounts due from customers for contract work	18	1,239	625
Prepayments, deposits and other receivables		1,206	6,679
Deferred expenditure for publication		1,081	1,081
Amount due from an associate	19	–	379
Pledged bank deposits		–	2,033
Bank balances and cash		1,500	30,244
		7,710	45,930
Current liabilities			
Trade payables	20	341	1,560
Other payables and accrued expenses		1,725	1,214
Amount due to a related company	21	3,200	–
Taxation		8	8
		5,274	2,782
Net current assets		2,436	43,148
		17,131	53,059
Capital and reserves			
Share capital	22	4,922	4,922
Reserves	23	11,801	47,353
		16,723	52,275
Minority interests		408	784
		17,131	53,059

The financial statements on pages 28 to 70 were approved and authorised for issue by the Board of Directors on 16th March, 2004 and are signed on its behalf by:

DIRECTOR
POON KWOK LIM STEVEN

DIRECTOR
POON SHU YAN JOSEPH

BALANCE SHEET

At 31st December, 2003

	NOTES	2003	2002
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment	11	**324**	174
Investments in subsidiaries	13	**2,787**	5,787
Deferred expenditure for publication		**902**	–
		4,013	5,961
Current assets			
Trade receivables		**27**	194
Prepayments, deposits and other receivables		**562**	4,466
Amounts due from subsidiaries		**14,430**	15,963
Amount due from an associate	19	**–**	301
Bank balances and cash		**699**	28,971
		15,718	49,895
Current liabilities			
Other payables and accrued expenses		**774**	945
Amount due to a related company	21	**3,200**	–
Amounts due to subsidiaries		**889**	1,557
		4,863	2,502
Net current assets		**10,855**	47,393
		14,868	53,354
Capital and reserves			
Share capital	22	**4,922**	4,922
Reserves	23	**9,946**	48,432
		14,868	53,354

DIRECTOR
POON KWOK LIM STEVEN

DIRECTOR
POON SHU YAN JOSEPH

For the year ended 31st December, 2003

	NOTE	**2003**	2002
		HK$'000	*HK$'000*
Operating activities			
Loss from operations		**(33,109)**	(22,791)
Adjustments for:			
Interest income		**(85)**	(173)
Amortisation of goodwill		**394**	296
Allowances for bad and doubtful debts		**1,320**	–
Depreciation		**1,287**	1,641
Impairment loss recognised in respect of goodwill		**2,613**	–
Loss on disposal of property, plant and equipment		**772**	1,123
Operating cash flows before movements in working capital		**(26,808)**	(19,904)
Decrease (increase) in inventories		**71**	(71)
Decrease in trade receivables		**1,476**	2,763
Increase in amounts due from customers for contract work		**(614)**	(625)
Decrease (increase) in prepayments, deposits and other receivables		**4,792**	(5,623)
Increase in deferred expenditure for publication		**(4,015)**	(1,081)
Increase in amount due from an associate		**(627)**	(379)
Decrease in trade payables		**(1,219)**	(66)
Increase in other payables and accrued expenses		**511**	580
Net cash used in operating activities		**(26,433)**	(24,406)
Investing activities			
Interest received		**85**	173
Decrease (increase) in pledged bank deposits		**2,033**	(1,504)
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	*24*	**101**	(2,966)
Acquisition of investment in an associate		**(1,008)**	(959)
Acquisition of investment securities		**(6,000)**	–
Purchase of property, plant and equipment		**(722)**	(511)
Proceeds from disposal of property, plant and equipment		**–**	5
Net cash used in investing activities		**(5,511)**	(5,762)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2003

	2003	2002
	HK$'000	*HK$'000*
Financing activities		
Advance from a related company	**3,200**	–
Contribution from a minority shareholder	**–**	544
New borrowings raised	**–**	7,290
Repayments of borrowings	**–**	(13,115)
Proceeds from placement of shares (net of expenses)	**–**	39,243
Net cash from financing activities	**3,200**	33,962
(Decrease) increase in cash and cash equivalents	**(28,744)**	3,794
Cash and cash equivalents at beginning of year	**30,244**	26,450
Cash and cash equivalents at end of year	**1,500**	30,244
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**1,500**	30,244

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2003

	Total equity
	HK$'000
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 and 1st January, 2003	52,275
Net loss for the year	(35,552)
At 31st December, 2003	16,723

1. GENERAL

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 solution services as well as production and procurement of media contents.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of this SSAP has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 impairment losses.

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

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.

Investment securities

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, less any identified impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Deferred expenditure for publication

Deferred expenditure for publication is stated at cost less impairment loss, if any. Cost comprises the development expenditure for the establishment of the framework and layout of the magazines, as well as the production costs of the publication which consists of direct expenditure and an appropriate portion of production overhead. Development expenditure for the establishment of the framework and layout of the magazines is amortised on a straight-line basis over their useful life while 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.

Others

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong 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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefits costs

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

4. TURNOVER

	2003	2002
	HK$'000	HK$'000
Communication infrastructure service income	4,076	9,328
Service income from application and development of content delivery technology	2,497	2,260
Income from content productions, procurement and delivery		
Sales of magazines	13	590
Advertising income	–	1,188
	6,586	13,366

5. 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.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Income statement for the year ended 31st December, 2003

	Communication infrastructure	Application and development of content delivery technology	Content production, procurement and delivery	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	4,076	2,497	13	6,586
RESULTS				
Segment results	(7,243)	(1,408)	(7,286)	(15,937)
Other operating income				85
Unallocated corporate expenses				(17,257)
Loss from operations				(33,109)
Allowance for amount due from an associate	–	–	(1,006)	(1,006)
Share of results of associates	–	–	(1,895)	(1,895)
Loss before taxation				(36,010)
Taxation credit				–
Loss after taxation and before minority interests				(36,010)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Balance sheet as at 31st December, 2003

	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	4,610	3,431	8,525	16,566
Unallocated corporate assets				5,839
Consolidated total assets				22,405
LIABILITIES				
Segment liabilities	571	185	504	1,260
Unallocated corporate liabilities				4,014
Consolidated total liabilities				5,274

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Other information for the year ended 31st December, 2003

	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	662	658	1,006	–
Allowances for inventory obsolescence	–	–	71	–
Additions to property, plant and equipment	361	–	361	–
Amortisation of goodwill	–	–	394	–
Depreciation	631	577	37	42
Loss on disposal of property, plant and equipment	752	8	12	–
Impairment losses recognised	–	–	3,862	–

5. 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 and before minority interests				(22,782)

5. 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

5. 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	–	–	70	–
Additions to property, plant and equipment	205	–	1,337	213
Amortisation of goodwill	–	–	296	–
Depreciation	115	1,261	255	10
Loss on disposal of property, plant and equipment	31	1,092	–	–

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.

6. LOSS FROM OPERATIONS

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

	2003	2002
	HK$'000	*HK$'000*
Allowances for bad and doubtful debts	**2,326**	647
Allowances for inventory obsolescence (including in other operating expenses)	**71**	70
Amortisation of goodwill (included in other operating expenses)	**394**	296
Auditors' remuneration	**360**	350
Business development expenses	**178**	2,800
Exchange loss	**29**	–
Loss on disposal of property, plant and equipment	**772**	1,123
Operating lease rentals in respect of land and buildings	**2,197**	2,326
Staff costs, including directors' remuneration		
Retirement benefits schemes contributions	**356**	431
Redundancy payments	**504**	–
Salaries and allowances	**14,445**	12,109
	15,305	12,540
Interest income on bank deposits	**(85)**	(173)

7. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS

Directors' emoluments

	2003	2002
	HK$'000	*HK$'000*
Fees:		
Executive Directors	**425**	104
Non-executive Directors	**213**	62
Independent non-executive Directors	**400**	84
	1,038	250
Other emoluments – Executive Directors:		
– salaries and other benefits	**4,664**	2,551
– discretionary bonus	**500**	341
– retirement benefits schemes contributions	**50**	37
	5,214	2,929
	6,252	3,179

During the year, the five executive Directors received emoluments of approximately HK$2,292,000 (2002: HK$493,000), HK$1,456,000 (2002: HK$973,000), HK$1,072,000 (2002: HK$993,000), HK$604,000 (2002: HK$399,000) and HK$215,000 (2002: HK$175,000) respectively, the two non-executive Directors received director's fees of approximately HK$150,000 (2002: HK$31,000) and HK$63,000 (2002: HK$31,000) respectively and the two independent non-executive Directors each received director's fees of approximately HK$200,000 (2002: HK$42,000) each.

No Directors of the Company waived any emoluments during the years ended 31st December, 2002 and 2003.

7. DIRECTORS' AND EMPLOYEE'S EMOLUMENTS *(Continued)*

Employees' emoluments

Of the five highest paid individuals, three (2002: two) were Directors of the Company, details of whose emoluments are included in the above disclosures. The emoluments of the remaining two (2002: three) individuals were set out as follows:

	2003	2002
	HK$'000	*HK$'000*
Salaries and other benefits	**1,297**	1,812
Retirement benefits schemes contributions	**23**	36
	1,320	1,848

Their emoluments were within the following bands:

	2003	2002
0 to HK$1,000,000	**2**	3

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.

8. TAXATION CREDIT

	2003	2002
	HK$'000	*HK$'000*
Transfer from deferred taxation	**–**	81

No provision for Hong Kong Profits Tax was made for both years as the Company and its subsidiaries had no estimated assessable profits.

8. TAXATION CREDIT *(Continued)*

The taxation can be reconciled to the loss per the income statement as follows:

	2003	2002
	HK$'000	*HK$'000*
Loss before taxation	**(36,010)**	(22,863)
Taxation at income tax rate of 17.5% (2002: 16%)	**(6,302)**	(3,658)
Tax effect of income that is not taxable in determining taxable profit	**(15)**	(27)
Tax effect of estimated tax losses for which deferred tax assets have not been recognised	**4,317**	3,092
Tax effect of expenses that are not deductible in determining taxable profit	**2,000**	512
Taxation credit for the year	**–**	(81)

At the balance sheet date, the Group has unused estimated tax losses of approximately HK$42,000,000 (2002: HK$17,337,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

9. DIVIDEND

No dividend was paid or proposed for 2002 and 2003, nor has any dividend been proposed since the balance sheet date.

10. LOSS PER SHARE

	2003	2002
	HK$'000	*HK$'000*
Loss for the purpose of basic and diluted loss per share	**(35,552)**	(22,007)
Weighted average number of ordinary shares for the purpose of basic loss per share	**492,196,232**	394,616,209
Effect of dilutive potential ordinary shares: Share options	**N/A**	N/A
Number of ordinary shares for the purpose of diluted loss per shares	**492,196,232**	394,616,209

The computation of diluted loss per share for both years did not assume the exercise of the Company's potential ordinary shares 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.

11. 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, 2003	1,236	5,912	205	7,353
Additions	202	520	–	722
Disposals	(1,043)	(31)	–	(1,074)
At 31st December, 2003	395	6,401	205	7,001
DEPRECIATION				
At 1st January, 2003	221	1,391	6	1,618
Provided for the year	127	1,119	41	1,287
Eliminated on disposals	(295)	(7)	–	(302)
At 31st December, 2003	53	2,503	47	2,603
NET BOOK VALUES				
At 31st December, 2003	342	3,898	158	4,398
At 31st December, 2002	1,015	4,521	199	5,735

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

	Leasehold improvements	Furniture, fixtures and office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
COST			
At 1st January, 2003	152	29	181
Additions	39	167	206
Disposals	(5)	–	(5)
At 31st December, 2003	186	196	382
DEPRECIATION			
At 1st January, 2003	3	4	7
Provided for the year	35	16	51
At 31st December, 2003	38	20	58
NET BOOK VALUES			
At 31st December, 2003	148	176	324
At 31st December, 2002	149	25	174

12. GOODWILL

	THE GROUP
	HK$'000
COST	
At 1st January, 2003 and 31st December, 2003	3,585
AMORTISATION AND IMPAIRMENT	
At 1st January, 2003	296
Charged for the year	394
Impairment loss recognised	2,613
AT 31st December, 2003	3,303
NET BOOK VALUES	
At 31st December, 2003	282
At 31st December, 2002	3,289

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

Due to continuous losses incurred by the subsidiary engaging in software and hardware development in the PRC, the Directors reassessed the recoverable amount of the goodwill arising from the acquisition of that subsidiary at the balance sheet date and recognised an impairment loss of approximately HK$2,613,000.

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at carrying value	**2,787**	2,787
Unlisted shares, at cost	**3,000**	3,000
Impairment loss recognised	**(3,000)**	–
	2,787	5,787

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.

13. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Due to continuous losses incurred by the subsidiary engaging in software and hardware development in the PRC, the Directors reassessed the recoverable amount of the investment cost in that subsidiary at the balance sheet date and recognised an impairment loss of approximately HK$3,000,000.

Particulars of the subsidiaries of the Company are as follows:

Name	**Place/country of incorporation or registration**	**Issued and fully paid/ registered share capital**	**Attributable equity interest held by the Company** Directly	Indirectly	**Principal activities**
Network Engineering Limited	Hong Kong	Ordinary HK$1,000,000	100%	–	Provision of communication infrastructure services
Net2Voice (Hong Kong) Limited	Hong Kong	Ordinary HK$2	100% *(note i)*	–	Inactive
VCTG Technology Limited (formerly known as Pacific Digitals (HK) Limited)	Hong Kong	Ordinary HK$2	100%	–	Provision of application and development of content delivery technology services
Optimum Cyber Limited	British Virgin Islands	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	Registered US$140,000	–	100%	Software and hardware development
Unifine Ltd.	British Virgin Islands	Ordinary US$1	100%	–	Investment holding

13. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place/country of incorporation or registration	Issued and fully paid/ registered share capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
VCTG Amonic Solutions (Macau) Limited	Macau	Ordinary MOP$50,000	51%	–	Provision of application and development of content delivery technology services
Vertex Digitial Media Limited	British Virgin Islands	Ordinary US$1	–	100%	Investment holding
SinoWorld Media Company Limited	Hong Kong	Ordinary HK$5,165,000	–	80%	Investment holding
SinoWorld CNW Publishing Limited	Hong Kong	Ordinary HK$1,000,000	–	64%	Publication of magazine

Notes:

i. Pursuant to an agreement entered into between SAR1 Innovations Limited ("SAR1"), the then ultimate holding company, and Net2Voice Inc. dated 20th October, 2001 and a letter of assignment dated 31st January, 2002, the issued share capital of Net2Voce (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 and VCTG Amonic Solutions (Macau) Limited which are operated in other regions in the PRC and Macau respectively.

14. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Share of net assets	–	225
Goodwill on acquisition of an associate *(note i)*	–	662
	–	887

As at 31st December, 2003, the Group had interests in the following associates:

Name of entity	Form of business structure	Country/ place of registration/ incorporation and operation	Class of share held	Proportion of nominal value of registered issued 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	Incorporated	PRC	Registered	51% *(note ii)*	Provision of development of digital media technology services
East Art International Limited ("East Art")	Incorporated	Hong Kong	Registered	51% *(note iii)*	Provision of event management services

14. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

i. During the year, goodwill of approximately HK$902,000 arose on the acquisition of an additional 21% interest in Beijing CAV Vertex. Details of movements in goodwill arising on acquisition of the associate are as follows:

	HK$'000
COST	
At 1st January, 2003	673
Arising on acquisition	902
	1,575
AMORTISATION AND IMPAIRMENT	
At 1st January, 2003	11
Charged for the year	315
Impairment loss recognised	1,249
	1,575
CARRYING AMOUNTS	
At 31st December, 2003	–
At 31st December, 2002	662

The amortisation period adopted for the goodwill is 5 years and amortisation has been included in the amount reported as share of results of associates in the consolidated income statement.

Due to continuous losses incurred by the associate, the Directors reassessed the recoverable amount of goodwill arising from the acquisition of that associate and recognised an impairment loss of approximately HK$1,249,000, which has been included in the amount reported as share of results of associates in the consolidated income statement.

ii. The Group holds a 51% interest in Beijing CAV Vertex. However, under the agreement entered into between the Group and the other shareholder of Beijing CAV Vertex, the other shareholder of Beijing CAV Vertex controls the composition of the board of directors of Beijing CAV Vertex and therefore the Group does not control Beijing CAV Vertex. The Directors consider that the Group does exercise significant influence over Beijing CAV Vertex and it is therefore classified as an associate of the Group. As the Group has no obligations in respect of Beijing CAV Vertex, the Group's share of the post-acquisition losses of Beijing CAV Vertex is limited to the carrying amount of Beijing CAV Vertex and has not recognised further losses.

14. INTERESTS IN ASSOCIATES *(Continued)*

iii. The Group holds a 51% interest in East Art. However, under the shareholders' agreement entered into between the Group and the other shareholder of East Art, the other shareholder of East Art controls the composition of the board of directors of East Art and therefore the Group does not control East Art. The Directors consider that the Group does exercise significant influence over East Art and it is therefore classified as an associate of the Group. As the Group has no obligations in respect of East Art, the Group's share of the post-acquisition losses of East Art is limited to the carrying amount of Fast Art and has not recognised further losses.

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

15. INVESTMENT SECURITIES

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Non-current:		
Unlisted equity securities	**6,000**	–

The amount represents the Group's investments in 天意華創峰廣告有限公司. The company is established in the PRC. The Group holds a 16% equity interest in the company.

16. INVENTORIES

THE GROUP

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

17. 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	
	2003	2002
	HK$'000	*HK$'000*
0 to 60 days	**665**	1,155
61 to 90 days	**150**	2,235
91 to 180 days	**542**	885
Over 180 days	**1,327**	543
	2,684	4,818

18. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
Contracts in progress:		
Contract costs incurred plus recognised profit less recognised losses	**1,239**	625
Less: Progress billings	**–**	–
Amounts due from customers for contract work	**1,239**	625

At 31st December, 2003, retention monies held by customers for contract work amounted to HK$97,000 (2002: 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 (2002: HK$136,000) and were included in other payables and accrued expenses.

19. AMOUNT DUE FROM AN ASSOCIATE

THE GROUP AND THE COMPANY

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

20. TRADE PAYABLES

The aged analysis of trade payables is stated as follows:

	THE GROUP	
	2003	2002
	HK$'000	*HK$'000*
0 to 30 days	**170**	580
31 to 60 days	**22**	335
61 to 90 days	**44**	310
91 to 180 days	**105**	273
Over 180 days	**–**	62
	341	1,560

21. AMOUNT DUE TO A RELATED COMPANY

The amount represents advance from Bright World Enterprise Limited, in which Mr. Poon Kwok Lim Steven has a beneficial interest and Mr. Poon Kwok Lim Steven and Mr. Poon Shu Yan Joseph are also Directors. It is unsecured, non-interest bearing and has no fixed repayment terms.

22. SHARE CAPITAL

	Number of shares	*HK$'000*
Authorised:		
At 1st January, 2002, ordinary shares of HK$0.1 each	6,000,000,000	600,000
Share sub-division, ordinary shares of HK$0.01 each	54,000,000,000	–
At 31st December, 2002 and 31st December, 2003, ordinary shares of HK$0.01 each	60,000,000,000	600,000
Issued and fully paid:		
At 1st January, 2002, ordinary shares of HK$0.1 each	5	–
Share sub-division, ordinary shares of HK$0.01 each	45	–
Issue of shares for settlement of amount due to SAR1, ordinary shares of HK$0.01 each	369,146,182	3,691
Issue of shares by placement, ordinary shares of HK$0.01 each	123,050,000	1,231
At 31st December, 2002, and 31st December, 2003, ordinary shares of HK$0.01 each	492,196,232	4,922

23. RESERVES

	Share premium	Special reserve	Capital reserve	Retained profit (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP					
At 1st January, 2002	–	1,000	–	1,677	2,677
Net loss for the year	–	–	–	(22,007)	(22,007)
Shares issued at premium	76,660	–	–	–	76,660
Share issue expenses	(9,977)	–	–	–	(9,977)
At 31st December, 2002 and at 1st January, 2003	66,683	1,000	–	(20,330)	47,353
Net loss for the year	–	–	–	(35,552)	(35,552)
At 31st December, 2003	66,683	1,000	–	(55,882)	11,801
THE COMPANY					
At 1st January, 2002	–	–	2,787	(38)	2,749
Net loss for the year	–	–	–	(21,000)	(21,000)
Shares issued at premium	76,660	–	–	–	76,660
Share issue expenses	(9,977)	–	–	–	(9,977)
At 31st December, 2002 and at 1st January, 2003	66,683	–	2,787	(21,038)	48,432
Net loss for the year	–	–	–	(38,486)	(38,486)
At 31st December, 2003	66,683	–	2,787	(59,524)	9,946

All the reserves of the Group are attributable to the Company and its subsidiaries.

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.

23. 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 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.

24. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired 51% of the issued share capital of VCTG Amonic Solutions (Macau) Limited at a consideration of HK$85,000, which was offset by a loan due from an employee.

	2003	2002
	HK$'000	*HK$'000*
Net assets acquired		
Property, plant and equipment	**–**	1,244
Trade receivables	**4**	827
Prepayments, deposits and other receivables	**62**	382
Bank balances and cash	**101**	34
Amount due to a related company	**–**	(54)
Amount due to SAR1	**–**	(2,513)
Other payables and accrued expenses	**–**	(153)
Minority interests	**(82)**	–
	85	(233)
Goodwill	**–**	3,233
Total consideration	**85**	3,000
Satisfied by:		
Cash	**–**	3,000
Offset against a loan due from an employee	**85**	–
	85	3,000
Net cash inflow (outflow) arising on acquisitions:		
Cash consideration	**–**	(3,000)
Bank balances and cash acquired	**101**	34
	101	(2,966)

The subsidiary acquired during the year contributed approximately HK$74,000 (2002: HK$27,000) to the Group's turnover and approximately HK$117,000 (2002: HK$3,360,000) to the Group's loss from operations.

25. MAJOR NON-CASH TRANSACTION

During the year ended 31st December, 2003, the Group acquired a 51% equity interest in VCTG Amonic Solutions (Macau) Limited at a consideration of HK$85,000 which was settled by offsetting against a loan due from an employee.

26. LEASE COMMITMENTS

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

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**1,448**	503	**864**	–
In the second to fifth year inclusive	**589**	729	**331**	–
	2,037	1,232	**1,195**	–

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.

27. 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.

27. SHARE OPTIONS SCHEMES *(Continued)*

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

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

(v) The subscription price for 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 share options to be granted under the Post-IPO Option Scheme and any other share option schemes must not in aggregate exceed 10% of the shares in issue as at 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 share options granted under the Post-IPO Option Scheme to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue from time to time. Any further grant of share options to such grantee which would result in the shares issued and to be issued upon exercise of all share options granted and to be granted to such grantee (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, must be subject to shareholders' approval with such grantee and his associates abstaining from voting.

27. SHARE OPTIONS SCHEMES *(Continued)*

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

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

(x) The Post-IPO Option Scheme 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 share option has been granted under the Post-IPO Option Scheme since its adoption on 22nd July, 2002.

(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 25,060,000 (2002: 27,125,000) equivalent to approximately 5.09% (2002: 5.51%) of the issued share capital of the Company as of the balance sheet date;

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

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

27. SHARE OPTIONS SCHEMES *(Continued)*

(b) Pre-initial public offering share option scheme *(Continued)*

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

The share options to subscribe for an aggregate of 25,060,000 (2002: 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 share 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 share 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.

27. 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 directors, employees as well as advisors and consultants and movements in such holdings during the year:

		Number of share options					
Name of grantee	Exercise price per share	Outstanding at 1.1.2002	Granted during the year	Lapsed during the year	Outstanding at 31.12.2002 and 1.1.2003	Lapsed during the year	Outstanding at 31.12.2003
	HK$			*(Note ii)*		*(Note ii)*	
Directors	0.12	–	17,668,000	–	17,668,000	1,334,000	16,334,000
	0.21	–	3,434,000	–	3,434,000	–	3,434,000
		–	21,102,000	–	21,102,000	1,334,000	19,768,000
Advisors and consultants	0.12	–	434,000	–	434,000	–	434,000
	0.45	–	1,334,000	–	1,334,000	–	1,334,000
		-	1,768,000	–	1,768,000	–	1,768,000
Employees	0.12	–	3,292,000	87,000	3,205,000	4,000	3,201,000
	0.21	–	963,000	70,000	893,000	–	893,000
		–	4,255,000	157,000	4,098,000	4,000	4,094,000
		–	27,125,000	157,000	26,968,000	1,338,000	25,630,000

Notes:

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

(ii) These share options were lapsed as they resigned from the Group.

27. SHARE OPTIONS SCHEMES *(Continued)*

The exercise in full of the outstanding 25,630,000 (2002: 26,968,000) share options at 31st December, 2003 would, under the present capital structure of the Company, result in the issue of 25,630,000 (2002: 26,968,000) additional shares for a total consideration, before expenses, of approximately HK$3,905,000 (2002: HK$4,066,000).

28. RETIREMENT BENEFITS SCHEMES

Before 30th November, 2000, the Group did not contribute to any retirement benefits scheme for either its employees or its Directors in Hong Kong. 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.

29. 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. Mr. 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.

30. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003	2002	**2003**	2002
	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	–	–
	980	1,960	980	980

31. POST BALANCE SHEET EVENTS

(a) Subsequent to the balance sheet date, the Group entered into an agreement with an independent third party to set up a joint venture company, which will principally engage in the provision of technology solutions services. The Group will contributed US$50,000 to the joint venture company and holds a 50% equity interest in that joint venture company.

(b) Subsequent to the balance sheet date, the Company entered into a conditional agreement with LIM Asia Arbitrage Fund Inc. ("LIM Fund"), Mr. Poon Kwok Lim Steven and Mr. Poon Shu Yan Joseph ("Subscription Agreement"), under which and subject to certain terms and conditions thereof, LIM Fund agreed to subscribe for the bonds and warrants to be issued by the Company and Mr. Poon Kwok Lim Steven and Mr. Poon Shu Yan Joseph agreed to act as warrantors in respect of certain representations and warranties in relation to the Group. Under the Subscription Agreement,

(i) the bonds to be issued by the Company, without any conversion rights attaching thereto, will be in the principal amount of US$2,000,000 carrying a coupon of 2 per cent. per annum and expiring on the day falling on the fifth anniversary of the completion date;

(ii) the Company has agreed to charge, and to procure its subsidiary, Unifine Ltd., to charge their respective shareholding interests in Unifine Ltd., Vertex (Gulf) Enterprise Holdings Limited (incorporated in 2004) and Vertex TRC Publishing Company Limited (incorporated in 2004) in favour of LIM Fund; and

(iii) the Company has agreed to issue and allot the warrants, which carry the rights to subscribe for 41,010,000 new shares of the Company at an initial subscription price of HK$0.474 per share (subject to adjustment) at any time between the completion date and the day falling on the expiry of five year after the completion, to LIM Fund for no consideration upon completion of the subscription of the bonds.

RESULTS

	2003 HK$'000	2002 HK$'000	2001 HK$'000	2000 HK$'000 (Note 1)
Turnover	**6,586**	13,366	12,380	8,599
(Loss) profit from operations	**(33,109)**	(22,791)	465	(6,803)
Allowance for amount due from an associate	**(1,006)**	–	–	–
Share of results of associates	**(1,895)**	(72)	–	–
(Loss) profit before taxation	**(36,010)**	(22,863)	465	(6,803)
Taxation credit (charge)	–	81	(52)	81
(Loss) profit before minority interests	**(36,010)**	(22,782)	413	(6,722)
Minority interests	**458**	775	27	566
Net (loss) profit for the year	**(35,552)**	(22,007)	440	(6,156)

ASSETS AND LIABILITIES

	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*
	(Note 2)	*(Note 2)*	*(Note 2)*
Total assets	**22,405**	55,841	41,156
Total liabilities	**(5,274)**	(2,782)	(37,816)
Minority interests	**(408)**	(784)	(663)
Shareholders' funds	**16,723**	52,275	2,677

Notes:

1. 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.

2. 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. Accordingly, the balance sheets of the Group that have been prepared are those set out above.

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 V, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 27th April, 2004 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 31st December, 2003 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 convertible 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 convertible 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 (the "Articles of Association") in force from time to time; or (iv) an issue of shares in the Company upon the exercise of subscription or conversion rights attaching to any warrants which may be issued by the Company from time to time or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue at the date of passing of this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

(d) for the purpose of this resolution,

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

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

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

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

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

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

"THAT:

(a) subject to paragraph (b) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its shares on the GEM or any other stock exchange on which the shares of the Company may be listed and recognised by The Securities and Futures Commission of Hong Kong ("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;

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

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

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

   "**THAT** conditional upon resolutions nos. 4 and 5 being passed, the unconditional general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with any additional shares in the share capital of the Company and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertible 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."

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

   "**THAT**

   (A) the Articles of Association of the Company be and are hereby amended by:-

   (a) inserting the following new definition of "associate" in Article 2:

   "associate" the meaning attributed to it in the rules of the Designated Stock Exchange. "

   (b) deleting the words "a recognised clearing house within the meaning of Section 2 of the Securities and Futures (Clearing House) Ordinance of Hong Kong or" in the definition of "clearing house" in Article 2

   (c) deleting the existing definition of "Subsidiary and Holding Company" in Article 2 and replacing these with the following new definition:

   "Subsidiary and Holding Company" the meanings attributed to them in the rules of the Designated Stock Exchange"

   (d) re-numbering existing Article 76 as Article 76(1);

   (e) inserting the following as new Article 76(2):

   "(2) Where any Member is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted."

(f) deleting the words "not less than seven (7) clear days but not more than fourteen (14) clear days before the date of the general meeting" in the last sentence of Article 88 and replacing therewith the following proviso:

"provided that the minimum length of the period, during which such Notice(s) are given, shall be at least seven (7) days and that the period for lodgment of such Notice(s) shall commence no earlier than the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting."

(g) deleting the existing Article 103 in its entirety and replacing therewith the following new Article 103:

103. (1) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

(i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

(v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest or that of any of his associates is derived); or

(vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(2) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associates (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his/their interest or that of any of his associates is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.

(3) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.

(4) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote and such question is not resolved by his voluntarily agreeing to abstain from voting, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman as known to such chairman has not been fairly disclosed to the Board."

(B) new articles of association of the Company, consolidating all of the changes referred to above and in the form produced to the meeting, be and are hereby adopted with immediate effect in replacement of the existing articles of association of Company."

By Order of the Board
Vertex Communications & Technology Group Limited
AU YEUNG Pui Shan Karen
Company Secretary

Hong Kong, 31st March, 2004

Principal place of business in Hong Kong:
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British West Indies

Notes:

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

2. 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 26th April, 2004 to 27th April, 2004, 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 23rd April, 2004, for registration.