VERTEX

Communications & Technology Group Limited

(Incorporated in the Cayman Islands with Limited Liability)

(慧峯集團有限公司)*

Interim Report 2004

**For identification purposes only*

Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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

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

As at the date hereof, Mr. Poon Kwok Lim Steven, Mr. Poon Shu Yan Joseph and Ms Au Yeung Pui Shan Karen are the executive directors of the Company, Mr. Lee Peng Fei Allen and Mr. Lee Shu Fan are the non-executive directors of the Company and Mr. Yeung Pak Sing and Mr. Tsui Yiu Wa Alec are the independent non-executive directors of the Company.

SUMMARY

- **For the six months ended 30th June 2004, the Group's turnover decreased by approximately 55%, as compared to the corresponding period last year to approximately HK$1.6 million.**

- **The loss attributable to shareholders recorded approximately HK$15.6 million.**

- **Loss per share for the six months ended 30th June 2004 is HK$3.2 cents.**

- **The Board of Directors (the "Board") of Vertex Communications & Technology Group Limited does not recommend the payment of an interim dividend for the six months ended 30th June 2004.**

FINANCIAL RESULTS

The Board of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three and six months ended 30th June 2004, together with the comparative figures for the corresponding period in 2003 as follows:

Condensed Consolidated Income Statement

		Three months ended 30th June		Six months ended 30th June	
		2004	2003	**2004**	2003
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	Notes	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Turnover	*(2)*	**1,197**	1,732	**1,631**	3,641
Other operating income		**12**	27	**13**	69
Staff costs		**(2,873)**	(3,244)	**(5,788)**	(7,343)
Subcontracting costs		**(678)**	(1,377)	**(1,042)**	(2,851)
Depreciation		**(242)**	(305)	**(548)**	(650)
Royalty and production costs		**(1,903)**	(104)	**(2,911)**	(457)
Other operating expenses		**(3,243)**	(3,336)	**(7,338)**	(5,570)
Loss from operations	*(4)*	**(7,730)**	(6,607)	**(15,983)**	(13,161)
Finance cost		**(108)**	–	**(108)**	–
Share of results of an associate		**–**	(150)	**–**	(488)
Loss before taxation		**(7,838)**	(6,757)	**(16,091)**	(13,649)
Taxation	*(5)*	**–**	–	**–**	–
Loss before minority interests		**(7,838)**	(6,757)	**(16,091)**	(13,649)
Minority interests		**–**	89	**408**	234
Net loss for the period		**(7,838)**	(6,668)	**(15,683)**	(13,415)
Loss per share – Basic	*(6)*	**HK$(1.6) cents**	HK$(1.5) cents	**HK$(3.2) cents**	HK$(2.9) cents

Condensed Consolidated Balance Sheet

	Notes	30th June 2004 HK$'000 (Unaudited)	31st December 2003 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	(8)	**3,118**	4,398
Goodwill	(9)	**247**	282
Long term investment	(10)	**6,000**	6,000
Deferred expenditure for publication		**3,628**	4,015
		12,993	14,695
Current assets			
Trade receivables	(11)	**2,246**	2,684
Amounts due from customers for contract work	(12)	**189**	1,239
Prepayments, deposits and other receivables		**1,305**	1,206
Deferred expenditure for publication		**1,081**	1,081
Bank balances and cash		**7,121**	1,500
		11,942	7,710
Current liabilities			
Trade payables	(13)	**1,744**	341
Other payables and accrued expenses		**954**	1,725
Amount due to a related company		**5,200**	3,200
Taxation		**8**	8
		7,906	5,274
Net current assets		**4,036**	2,436
		17,029	17,131

	Notes	30th June 2004 HK$'000 (Unaudited)	31st December 2003 HK$'000 (Audited)
Capital and reserves			
Share capital		**4,954**	4,922
Reserves		**(3,525)**	11,801
		1,429	16,723
Minority interests		**–**	408
		1,429	17,131
Non-current liabilities			
Bond		**15,600**	–
		17,029	17,131

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2004

	Six months ended 30th June	
	2004	2003
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	**(12,500)**	(12,504)
Net cash inflow (outflow) in investing activities	**132**	(5,958)
Net cash inflow from financing activities	**17,989**	–
Increase (Decrease) in cash and cash equivalents	**5,621**	(18,462)
Cash and cash equivalents at beginning of period	**1,500**	30,244
Cash and cash equivalents at end of period	**7,121**	11,782

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2004

	Share Capital	Share Premium	Special Reserve	Accumulated Losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2003	4,922	66,683	1,000	(20,330)	52,275
Net loss for the period	–	–	–	(13,415)	(13,415)
At 30th June 2003	4,922	66,683	1,000	(33,745)	38,860
At 1st January 2004	4,922	66,683	1,000	(55,882)	16,723
Share issue at premium	32	357	–	–	389
Net loss for the period	–	–	–	(15,683)	(15,683)
At 30th June 2004	4,954	67,040	1,000	(71,565)	(1,429)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June 2004

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP"s) No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The condensed interim financial statements are unaudited but have been reviewed by the audit committee of the Company.

The accounting policies and basis of preparation adopted for the preparation of the condensed interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December 2003.

2. TURNOVER

	For the six months ended 30th June	
	2004	2003
	HK$'000	*HK$'000*
Communication infrastructure service income	**428**	2,618
Service income from application and development of content delivery technology	**706**	1,023
Income from content productions, procurement and delivery		
Sales of magazines	**41**	–
Advertising income	**456**	–
	1,631	3,641

3. 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.

Income statement for six months ended 30th June 2004

	Communication infrastructure	Application and development of content delivery technology	Content production, procurement and delivery	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	428	706	497	1,631
RESULTS				
Segment results	(79)	(1,906)	(5,487)	(7,472)
Other operating income		13		13
Unallocated corporate expenses				(8,632)
Loss from operations				(16,091)
Share of results of an associate				–
Loss for the period				(16,091)

Balance sheet as at 30th June, 2004

	Communication infrastructure *HK$'000*	Application and development of content delivery technology *HK$'000*	Content production, procurement and delivery *HK$'000*	Consolidated *HK$'000*
ASSETS				
Segment assets	2,245	3,621	5,679	11,545
Interest in an associate				0
Unallocated corporate assets				13,390
Consolidated total assets				24,935
LIABILITIES				
Segment liabilities	(275)	(359)	(1,025)	(1,659)
Unallocated corporate liabilities				(21,847)
Consolidated total liabilities				(23,506)

Other information for the six months ended 30th June 2004

	Communication infrastructure *HK$'000*	Application and development of content delivery technology *HK$'000*	Content production, procurement and delivery *HK$'000*	Unallocated *HK$'000*
Allowances for bad and doubtful debts	–	–	–	–
Additions to property, plant and equipment	–	–	26	8
Amortisation of goodwill and deferred expenditure for publication	–	–	437	–
Depreciation	43	441	26	38

Income statement for six months ended 30th June 2003

	Communication infrastructure *HK$'000*	Application and development of content delivery technology *HK$'000*	Content production, procurement and delivery *HK$'000*	Consolidated *HK$'000*
TURNOVER	2,618	1,023	–	3,641
RESULTS				
Segment results	(982)	(2,562)	(648)	(4,192)
Other operating income				69
Unallocated corporate expenses				(9,038)
Loss before taxation				(13,161)
Share of results of an associate				(488)
Loss after taxation				(13,649)

Balance sheet as at 31st December, 2003

	Communication infrastructure *HK$'000*	Application and development of content delivery technology *HK$'000*	Content production, procurement and delivery *HK$'000*	Consolidated *HK$'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

Other information for the six months ended 30th June 2003

	Communication infrastructure	Application and development of content delivery technology	Content production, procurement and delivery	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Allowances for bad and doubtful debts	–	–	–	–
Additions to property, plant and equipment	–	159	116	91
Amortisation of goodwill	–	56	197	–
Depreciation	65	548	15	22

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 is substantially derived in Hong Kong and its assets are also substantially located in Hong Kong. Accordingly, no analysis by geographical segment is presented.

4. LOSS FROM OPERATIONS

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

	Three months ended 30th June		Six months ended 30th June	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Amortisation of goodwill and deferred expenditure for publication	**218**	154	**437**	253
Operating lease rentals in respect of land and buildings	**439**	551	**973**	1,103
Staff costs, including directors' remuneration				
Retirement benefits scheme contributions	**69**	95	**145**	194
Salaries and allowances	**2,804**	3,149	**5,643**	7,149
	2,873	3,244	**5,788**	7,343
Allowance for bad and doubtful debts	**–**	–	**–**	45
Interest income on bank deposits	**–**	(26)	**(1)**	(54)

5. TAXATION

Hong Kong Profits Tax has not been provided for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil) as the Group did not generate any assessable profits in Hong Kong during these periods.

Pursuant to the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises, the Company's subsidiary in the PRC is exempted from income tax for its first two profitable years of operations and is entitled to a 50% relief on the income tax of the PRC for the following three years. No provision for the PRC income tax has been provided as the Company's subsidiary in the PRC has no assessable profit in the PRC for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil).

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

No provision for deferred tax has been provided for the Group because there were no significant timing differences at the balance sheet date (2003: Nil).

6. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30th June 2004 is based on the unaudited consolidated loss from ordinary activities attributable to shareholders of approximately HK$15,683,000 (six months ended 30th June 2003: loss of HK$13,415,000) and on the weighted average number of 493,434,399 Shares (six months ended 30th June 2003: 455,449,793 Shares) deemed to be in issue throughout the periods.

No diluted loss per share was presented as there were no dilutive potential shares in existence during the six months ended 30th June 2004 (six months ended 30th June 2003: Nil)

7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil).

8. FIXED ASSETS

The movements of fixed assets of the Group were:

	30th June 2004	31st December 2003
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Net book value, beginning of period/year	**4,398**	5,735
Additions	**34**	722
Disposals	**(766)**	(772)
Depreciation	**(548)**	(1,287)
Net book value, end of period/year	**3,118**	4,398

9. GOODWILL

	30th June 2004	31st December 2003
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Net book value, beginning of period/year	**282**	3,289
Amortisation	**(35)**	(394)
Impairment loss recognized	**–**	(2,613)
Net book value, end of period/year	**247**	282

10. LONG TERM INVESTMENT

	30th June 2004 HK$'000 (Unaudited)	31st December 2003 HK$'000 (Audited)
Unquoted equity investment	**6,000**	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.

11. 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:

	30th June 2004 HK$'000 (Unaudited)	31st December 2003 HK$'000 (Audited)
0 to 60 days	**1,027**	665
61 to 90 days	**1**	150
91 to 180 days	**29**	542
Over 180 days	**1,189**	1,327
	2,246	2,684

12. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	30th June 2004 HK$'000 (Unaudited)	31st December 2003 HK$'000 (Audited)
Contracts in progress:		
Contract costs incurred plus recognised profit less recognized loss	**189**	1,239
Less: Progress billings	**–**	–
Amounts due from customers for contract works	**189**	1,239

13. TRADE PAYABLES

The aged analysis of trade payables is stated as follows:

	30th June 2004	31st December 2003
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
0 to 60 days	**1,658**	192
61 to 90 days	**12**	44
91 to 180 days	**67**	105
Over 180 days	**7**	–
	1,744	341

14. CAPITAL COMMITMENTS

	30th June 2004	31st December 2003
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Commitment to subscribe for shares of Net2Voice (Hong Kong) Limited	**980**	980

15. CONTINGENT LIABILITIES

As at 30th June 2004, the Group has no significant contingent liabilities.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2004, the Group has cash and bank balances amounting to a total of approximately HK$7 million (31st December 2003: HK$1.5 million) and the Group had net current assets of approximately HK$4 million (31st December 2003: HK$2 million). For the period under review, the Group financed its operations with its own available funds as well as proceeds from the bond issued, and did not have any bank loans.

TREASURY POLICIES

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 six months ended 30th June 2004. It has no plans for material investments or capital assets other than those set out in the Prospectus.

SIGNIFICANT INVESTMENT

The Group has no significant investment during the six months ended 30th June 2004.

CAPITAL STRUCTURE

The shares of the Company were listed on the GEM of the Stock Exchange on 17th October 2002. There has been no change in the capital structure of the Company since that date. The capital of the Company comprises only ordinary shares.

HUMAN RESOURCES

As at 30th June 2004, the Group had 25 (30th June 2003: 49) employees working in Hong Kong and in the PRC. As at 30th June 2004, 5 employees had completed the required number of years of service under the Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment with the Group. The Group is only liable to make such payments where termination meets the required circumstances specified in the Ordinance. At 30th June 2004, the estimated contingent liabilities not provided for in the accounts for such purpose is not material.

Employees are remunerated according to their performance and work experience. On top of basic salaries, discretionary bonus and share option may be grated to eligible staff by reference to the Group's performance and individual's performance. In addition, the Group also provides mandatory provident fund scheme for the staff in Hong Kong and central pension scheme for the staff in the PRC.

FINANCIAL REVIEW

For the six months ended 30th June 2004, the Group recorded a decrease in revenue of approximately HK$2 million, representing a drop of approximately 55% over the corresponding period in 2003. After the restructuring at end of 2003, the Group spent less of its resources on communications infrastructure services, and system integration and solution services so as to focus on development of its media publishing business for the PRC market.

Staff cost for the six months under review decreased to approximately HK$5.8 million from approximately HK$7.3 million for the same period in the previous year. The decrease in staff cost was mainly attributable to retrenchment of operations staff in communications infrastructure and technology services business at end of 2003.

The subcontracting costs for the six months ended 30th June 2004 amounted to approximately HK$1 million, representing approximately 63% of the turnover. For the same period in previous year, the subcontracting cost was approximately HK$2.8 million or 78% of the turnover. The decrease in subcontracting cost is in line with the decrease in turnover. The percentage of subcontracting cost against turnover improved as about 30% of the turnover was related to advertising and sales of magazines where no subcontracting cost had been incurred.

For the six months ended 30th June 2004, the royalty and production cost amounted to HK$2.9 million. The increase in the royalty and production costs was attributed to royalty and production cost in relation to the publication of Chinese language Newsweek and MIT Technology Review in Hong Kong and the PRC during the period under review.

The other operating expenses for the six months ended 30th June 2004 amounted to approximately HK$7.3 million. The increase in other operating expenses was mainly attributable to compliance, legal and professional expenses in relation to issuance of bonds in an aggregate amount of HK$15.5 million on 26 February 2004.

BUSINESS REVIEW AND PROSPECTS

Media Publishing

Newsweek Chinese Edition

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

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

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. Newsweek Select is also available to China Mainland reader on a subscription basis since June 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 US. It is a monthly magazine for entrepreneurs in the Technology Age, focusing in business application of new technologies. The US edition has a publishing history of over 100 years and has reached over 1 million readers. The magazine has a Japanese, German and Italian editions.

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

ESPN the Magazine Chinese Edition

The Group concluded a licensing agreement with ESPN, Inc. to publish ESPN the Magazine in Chinese-language for the Greater China region ("ESPN Chinese Edition") in June 2004.

ESPN the Magazine is one of the most popular sports magazines in the US. It is a bi-monthly magazine for sports fans in the US. The US edition has a circulation of 1.75 million copies per issue in the US alone.

Under the global exclusive licensing agreement, the Group has right to publish ESPN Chinese Edition in both traditional and simplified Chinese characters, and has access to contents from ESPN the Magazine, ESPN International network television scripts, ESPN SoccerNet.com and ESPN Deportes.com.

For the China Mainland market, the Group is concluding partnership arrangement with a China domestic publishing company to publish the magazine in China and to allow the magazine to be sold nationwide in retail shops and newsstands.

ESPN Chinese Edition is planned to be available in Hong Kong and China Mainland in October 2004. It is anticipate that advertising and circulation revenue from ESPN Chinese Edition will contribute to the Group's overall performance in 2004.

Media Advertising

The Group is planning to bring more international media into the China market, in order to further develop the media business, the Group needs a reliable workforce in media advertising in China. 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 (produced by CAAC), 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 rep 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 has completed a website to facilitate the provision of information regarding oil production and oil supply and consumption in the Middle East and Greater China.

Digital Media

Digital Media Business in Beijing

The Group and CAV formed a joint-venture company, Beijing CAV Vertex Media Technology Company Limited (北京中錄慧峰數碼技術有限公司, 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.

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 Group's network engineering business suffered a slow half-year in 2004. Due to the continuous poor business environment in the sector, the Management plans to shift more resources to the media business in 2004.

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, the Group's System Integration and Solution Services business suffered a slow half-year in 2004. Due to the continuous poor business environment in the sector, the Management plans to shift more resources to the media business in 2004.

COMPARISON OF BUSINESS PROGRESS AND USE OF PROCEEDS

Business Objectives for the Review Period as set out in the Prospectus	*Actual Business Progress in the Review Period*
Closely monitor and match up the development of broadband and 3G networks in the Greater China Region	
• Evaluate the 3G development progress in the PRC and Hong Kong	• The expansion plan will be deferred in accordance with the development of 3G in the PRC and Hong Kong.
Strengthen its expertise in communication technology	
• Develop PC-based Net2Voice software for small and medium enterprises in the PRC and Hong Kong	• The development of PC-based Net2Voice software with voice and language 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

• Introduce renowned magazines from international media companies to the PRC media market.	• Signed with ESPN, Inc. to publish ESPN The Magazine, in Chinese language for Greater China Market.
• Consolidate strategic relationships with online media partners in the PRC through joint marketing campaign	• Strategic relationships with online media partners will be deferred until the printed version of Group's magazines are well received by the market.
• Establish a development center in the PRC to offer DRM clearance service and other technology solutions	• Setting up a development center is postponed as no viable DRM market in the PRC is envisaged.
• Establish partnerships with regional ISPs to develop the online media market	• On-going
• Continue to look for and negotiate with well-known PRC and international media companies to develop the content delivery business online and offline	• On-going

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

The net proceeds raised from the Group's Initial Public Offering (IPO) on the GEM board of The Stock Exchange of Hong Kong Limited, after deduction of related expenses pursuant to the IPO, were approximately HK$40 million. The net proceeds were applied during the six months period ended 30 June 2004 as follows:

	Planned amount to be used up to 30th June, 2004 as disclosed in the prospectus dated 9th October 2002	Actual amount used up to 30th June 2004	
	HK$'000	*HK$'000*	*Notes*
Expand network infrastructure services in the Greater China Region	3,600	–	*(1)*
Develop cross-media content delivery business in the Greater China Region	8,100	5,103	
Develop and strengthen its expertise in communication technology	11,000	7,479	*(2)*
Develop new products and services, and strengthen its presence in the Greater China Region	18,000	27,429	*(3)*
Total	40,700	40,011	

As at 30th June 2004, the proceeds of approximately HK$40 million from the initial public offering had all been used up.

SHARE OPTION SCHEME

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

Pre-IPO Share Option Scheme

As at 30th June 2004, options to subscribe for an aggregate of 19,637,000 Shares of the Company granted pursuant to the Scheme were outstanding. A portion of each grantee's right to exercise the option that has been conditionally granted under the Pre-IPO Share Option Scheme shall be deemed to have vested on 17th June 2002 (such portion is fixed on the basis of the grantee's employment period and/or contribution to the Group and as set out in the table below) and the rest of the right shall continue to vest over a period of not more than 4 years from 17th June 2002 on a monthly basis each time for 1/48th of the total number of Shares comprised in the option and, subject to that no option granted under the Pre-IPO Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant option. No further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so end on 9th October 2002 (the date of the Prospectus). Details are as follows:

		No. of options				
Name of grantee	**Exercise price per share**	**Granted on 24th July 2002**	**Held as at 1st January 2004**	**Exercised during the period**	**Lapsed during the period**	**Outstanding as at 31st March 2004**
	HK$					
Directors	0.12	17,668,000	16,334,000	–	–	16,334,000
	0.21	3,434,000	3,434,000	–	2,767,000	667,000
		21,102,000	19,768,000	–	2,767,000	17,001,000
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	434,000	–	1,334,000
Employees	0.12	3,292,000	3,201,000	2,765,000	2,000	434,000
	0.21	963,000	893,000	25,000	–	868,000
		4,255,000	4,094,000	2,790,000	2,000	1,302,000
		27,125,000	25,630,000	3,224,000	2,769,000	19,637,000

Save as disclosed above, as at 30th June 2004, none of the Directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

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

Post-IPO Share Option Scheme

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

DIRECTORS' AND CHIEF EXECUTIVE INTERESTS IN THE COMPANY

As at 30th June 2004, 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 referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

(1) Shares of the Company

Director	*Notes*	Nature of Interest	Number of Shares of HK$0.01 each in the Company held	% of shareholding in the Company
Mr. Poon Kwok Lim, Steven	*1*	Corporate and family	304,701,528	61.50

Notes:

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

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

Note:

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

Save as disclosed above, as at 30th June 2004, none of the Directors or chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they are taken or deemed to have under such provision of the SFO) or which were required to be entered in the register required to be kept under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred in Rule 5.46 to 5.68 of the GEM Listing Rules.

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

Director	Number of Shares to be issued upon exercise of options	% of options granted over the issued share capital	Subscription price per Share (HK$)
Mr. Poon Kwok Lim, Steven	8,334,000	1.69	0.12
Mr. Poon Shu Yan, Joseph	8,000,000	1.62	0.12
Ms. Au Yeung Pui Shan, Karen	667,000	0.14	0.21

A portion of each grantee's right to exercise the option that has been conditionally granted under the Pre-IPO Share Option Scheme shall be deemed to have vested on 17th June 2002 and the rest of the right shall continue to vest over a period of not more than 4 years from 17th June 2002 on a monthly basis each time for 1/48th of the total number of Shares comprised in the option and, subject to that no option granted under the Pre-IPO Share Option Scheme can be exercised before the expiration of 1 year from the Listing Date, any vested right shall remain exercisable for 10 years from the date of acceptance of the relevant option.

Save as disclosed above, as at 30th June 2004, none of the Directors or chief executives of the Company or their respective associates were granted option to subscribe for shares of the Company and none of the options has been exercised.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware as at 30th June 2004, the person/entities (including Directors or chief executives of the Company) who have interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO were as follows:

Name of shareholder	*Notes*	**Number of Shares held**	**Shareholding percentage**
Mr. Poon Kwok Lim	*1, 2, 3, 4*	304,701,528	61.50
Mrs. Poon Wong Wai Ping	*1, 2, 3, 4*	304,701,528	61.50
Amazing Nova Corporation	*1*	167,886,666	33.89
Matrix Worldwide Corporation	*2*	61,606,666	12.44
Forever Triumph Limited	*3*	53,208,196	10.74
Bright World Enterprise Limited	*4*	22,000,000	4.44
Bahrain Middle East Bank (E.C.)	*5*	28,724,812	5.80

Notes:

1. Amazing Nova Corporation is beneficially owned as to 40% by Mr. Poon Kwok Lim, Steven (a Director), as to 40% by Mrs. Poon Wong Wai Ping (spouse of Mr. Poon Kwok Lim, Steven), as to 10% by Mr. Poon Shu Yan, Joseph (a Director) and as to the remaining 10% by Ms. Poon Ching Mei (daughter of Mr. Poon Kwok Lim, Steven). Mrs. Poon Wong Wai Ping and Ms. Poon Ching Mei have no management role in the Group. Under the SFO, each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is deemed to be interest in the same 167,886,666 shares held by Amazing Nova Corporation as each of Mr. Poon Kwok Lim, Steven and Mrs. Poon Wong Wai Ping is entitled to exercise more than one-third of the voting power at a general meeting of Amazing Nova Corporation.

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

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

4. 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.

5. 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.

Save as disclosed above, as at 30th June 2004, the Directors are not aware of any other person who has interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of SFO, or who is interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group.

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

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

SPONSORS' INTERESTS

As at 30th June 2004, the Company's sponsor, Kingsway Capital Limited ("Kingsway"), its directors, employees or associates did not have any interest in the share capital of the Company or of any members of the Group, or have any right to subscribe for or to nominate persons to subscribe for the share of the Company or of any members of the Group.

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.

COMPETING INTERESTS AND CONFLICT OF INTERESTS

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

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 compiled with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

As required by Rule 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee comprises two independent non-executive Directors, namely Mr. Tsui Yiu Wa Alec, Mr. Yeung Pak Sing and Mr. Yeung Pak Sing is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to review the Company's annual reports and accounts, half-year reports and quarterly reports and providing advice and comments thereon to the board of Directors.

By Order of the Board
Vertex Communications & Technology Group Limited
Mr. Poon Kwok Lim, Steven
Chairman

Hong Kong Special Administrative Region of the People's Republic of China
10th August 2004