VERTEX

Communications & Technology Group Limited

慧 峯 集 團 有 限 公 司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code:8228)

2005

ANNUAL REPORT

*For identification only

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

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

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

The report, for which the directors of Vertex Communications & Technology Group Limited (the "Company") collectively and individually accept full responsibility, include 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 of this report, the board of directors of the Company comprises six directors, of which three are executive directors, namely, Mr. Poon Kwok Lim Steven, Mr. Poon Shu Yan Joseph and Mr. Mok Hay Hoi, and three are independent non-executive directors, namely, Mr. Tsui Yiu Wa Alec, Mr. Yeung Pak Sing and Mr. Tam Tak Wah.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Dr. Poon Kwok Lim, Steven, JP *(Chairman)*
Mr. Poon Shu Yan, Joseph *(CEO)*
Mr. Mok Hay Hoi

Independent Non-Executive Directors
Mr. Tam Tak Wah
Mr. Tsui Yiu Wa, Alec
Mr. Yeung Pak Sing

COMPANY SECRETARY

Ms. Mak Tak Ping, *ACS ACIS*

QUALIFIED ACCOUNTANT

Mr. Mok Hay Hoi, *CPA*

COMPLIANCE OFFICER

Mr. Poon Shu Yan, Joseph

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 3103-05, 31st Floor,
West Tower, Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Principal share registrar and transfer office
Bank of Bermuda (Cayman) Limited
P.O. Box 513GT,
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
Level 25, Three Pacific Place,
1 Queen's Road East,
Hong Kong

AUTHORIZED REPRESENTATIVES

Mr. Poon Shu Yan, Joseph
Ms. Mak Tak Ping

AUDIT COMMITTEE

Mr. Tam Tak Wah
Mr. Tsui Yiu Wa, Alec
Mr. Yeung Pak Sing

REMUNERATION COMMITTEE

Mr. Tam Tak Wah
Mr. Tsui Yiu Wa, Alec
Mr. Yeung Pak Sing

LEGAL ADVISER

Richards Butler
Conyers Dills & Pearman

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL BANKERS

International Bank of Asia
Hang Seng Bank
Fubon 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

STOCK CODE

8228

CHAIRMAN STATEMENT

Dear Shareholders

I am pleased to report the activities of the Company and its subsidiaries (collectively referred to as "the Group") for the year ended 31st December, 2005.

Following the Group's strategic repositioning on print media business in 2004, the Group has focused its resources on the production and distribution of the Newsweek Select, ESPN the Magazine and the MIT Technology Review in China Mainland. The magazines have been distributed throughout major cities of China and displayed at over 4,000 locations including gyms, cafes and universities in China. Advertisers have gradually recognized the brand name and its quality editorial, and we have successfully secured key accounts including Sony, Heineken etc. We remained positive about the potential growth of the revenue generated from the titles of magazines under the Group.

As part of the program to reinforce the brand image, we successfully organized the Hong Kong/ Shanghai CFO Forum 2005 with Hong Kong Trade Development Council on 1st November, 2005. The keynotes speakers were Mr. Frederick Ma, Secretary for Financial Services for Financial Services and the Treasury of HKSAR, Mr. Vincent Cheng, Chairman of HSBC and Ms. Li Xiao Lin, Vice Chairman and General Manager of China Power International Limited.

On 8th February, 2006, the Company entered into a shareholders' agreement in relation to investment of HK$3 million with 15% equity interest in China Hong Kong Power Development Company Limited ("CHKP"). CHKP will be engaged in the electric power supply and electricity power supply business in Hong Kong. By leveraging on the strong capabilities of the stakeholders in CHKP, we believe the investment will open a new chapter in electricity supply history in Hong Kong and return on the investment will be substantial in the long term.

Looking forward, the Group will continue to explore different investment opportunities in order to generate better returns for its shareholders.

I would like to take this opportunity to thanks our board of directors, shareholders, business partners, and for dedication and hardworking of staff members during the fiscal year of 2005.

Poon Kwok Lim, Steven
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The Group remains positive about the advertising income for the coming years. We will continue to strengthen the prominent brand name of the three titles of the magazines. As part of the program to beef up the editorial content, a pool of writers in major cities in China has been established and more quality local content will be gradually incorporated in the magazines. The Group will further strengthen the production and distribution platform for the PRC. At this moment, the magazines have been displayed in more than 4,000 locations throughout China. By putting more marketing efforts, we will increase our strategic presence in China.

FINANCIAL REVIEW

Results

During the year under view, the Group reported a turnover of about HK$12 million, a surge of HK$4.8 million or 65% as compared to the turnover in the previous year. About 89% of the turnover was contributed by the Group's media publication business. For the year of 2005, revenue generated from media publishing business has become the main stream of the Group and the editorial quality of the magazines under the group are generally recognized by advertisers and more key accounts have been secured.

Due to continuous losses incurred by the subsidiaries in publication, the Directors reassessed the recoverable amount of goodwill arising from the acquisition of equity shares in Vertex Media from Kingsway Lion Spur Technology Limited, and recognized an impairment loss of approximately HK$11.5 million during the year under review.

Staff cost for the year under review increased to approximately HK$13.3 million from approximately HK$11.6 million in the previous year. The increase in staff cost was due to setting up of sales and editorial teams in Beijing and Shanghai during the year under review.

The subcontracting costs for the year under review amounted to approximately HK$1 million, representing approximately 8.6% of the turnover. In previous year, the subcontracting cost was approximately HK$2 million or 28% of the turnover. The decrease in subcontracting cost is in line with the decrease in turnover of technology business.

For the year ended 31st December, 2005, the royalty and production cost amounted to HK$14 million. The increase in the royalty and production costs was attributed to additional royalty and production cost in relation to publication of ESPN Chinese Edition in Hong Kong and the PRC.

The other operating expenses for the year of 2005 amounted to approximately HK$10.9 million. Much more other operating expenses incurred in 2004 was mainly attributable to compliance, legal and professional expenses in relation to issuance of bonds on 26th February, 2004.

The net gain of HK$19.3 million after netting off exchange difference arose from disposal of 200,000 shares of Coastal Power Company Limited, representing 20% of its total share capital, to a strategic partner at a consideration of HK$20 million.

During the year, the investment of 16% equity interest in 天意華創峰廣告有限公司 was disposed at a cash consideration of HK$4.5 million. As a result, gain on disposal of investment amounting to HK$3.2 million was recognized during the year.

Net loss attributable to shareholders for the year was HK$17.7 million as compared to net loss of the preceding year of approximately HK$28.9 million.

Liquidity and Financial Resources

During the year ended 31st December, 2005, the Group financed its operations with its own working capital, internally generated cash flow and proceeds from debt and equity fund raising activities. As at 31st December, 2005, the Group did not have any bank loans and has cash of HK$9.5 million as compared to HK$10.2 million as at 31st December, 2004.

Dividend

The directors do not recommend payment of dividend for the year ended 31st December, 2005 (2004: Nil).

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 during the year under review. The capital of the Company comprises only ordinary shares. As at 31st December, 2005, 530,340,232 ordinary shares were issued and fully paid.

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

Other than as disclosed, the Group had no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the financial year ended 31st December, 2005.

Capital Commitment and Substantial Investments

The Group did not have any capital commitment and substantial investments as at financial year ended 31st December, 2005.

Future Plans for Substantial Investments or Capital Assets

Other than those disclosed, the Group did not have any plan for substantial investments or acquisition of capital assets.

Contingent Liabilities

As at the date of this report, the Directors have had no knowledge of any material contingent liabilities (2004: Nil).

Gearing Ratio

The Group's gearing ratio as at 31st December, 2005 increased to 179% (2004: 147%). The gearing ratio was based on the Group's total liabilities over its total assets.

Material Acquisitions or Disposals

Other than those disclosed, the Group did not have any material acquisition or disposal of investment for the year ended 31st December, 2005.

Employee and Remuneration Policy

As at 31st December, 2005, the Group had a total of 58 (2004: 34) staff based in the PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition to basic salaries and mandatory provident fund, staff benefits include medical coverage scheme and share options.

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.

Executive Directors

Dr. Poon Kwok Lim, Steven, *JP*, aged 64, is the Chairman of the Group. Dr. Poon has been employed by the Group since May 1998 and was one of the founders of the Group in 1998. He holds a bachelor degree in electrical engineering from the National Taiwan University, a master 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. In addition, Dr. Poon was formerly the general manager and chief operating officer of China Light & Power Company Limited. He was previously a member of the Hong Kong Legislative Council, a member of the council of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a member of the Listing Committee of the Stock Exchange, a founding council member of The Hong Kong University of Science and Technology and the chairman of Land Development Corporation. Dr. Poon is currently the chairman of Estate Agents Authority, an independent non-executive director of China Merchants China Direct Investments Limited and the managing director of Bright World Enterprise Limited, which has share interests in the Company. Dr. Poon Kwok Lim, Steven is the father of Mr. Poon Shu Yan, Joseph. He has interest in the share capital of the Company as defined under the Securities and Futures Ordinance (the "SFO"), which is disclosed in the paragraph "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" of the Directors' Report.

Mr. Poon Shu Yan, Joseph, aged 35, is the Chief Executive Officer 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. He holds a bachelor of science degree in electrical engineering from the University of Southern California. Upon graduation, Mr. Poon joined Hong Kong Cable Television Limited, where he was in charge of the design and construction of the territory-wide fibre network. He 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 Shu Yan, Joseph is the son of Dr. Poon Kwok Lim, Steven. He has interest in the share capital of the Company as defined under the SFO, which is disclosed in the paragraph "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" of the Directors' Report.

Mr. Mok Hay Hoi, aged 45, is the Group Controller and Qualified Accountant of the Group. Mr. Mok has been employed by the Group since March 2000. He obtained a bachelor of commerce degree majoring in accounting and economics, and a master of information systems degree from The University of Queensland, Australia. In addition, 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. He 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 a company specializing in sound cards, modem and other telecommunication equipment from 1996 to 1999. Mr. Mok has about 15 years' experience in accounting and finance. He has interest in the share capital of the Company as defined under the SFO which is disclosed in the paragraph "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" of the Directors' Report.

Independent Non-Executive Directors

Mr. Tam Tak Wah, aged 40, joined the Group in November 2004. Mr. Tam is a fellow member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. He has over 16 years of experience in accounting, corporate finance and corporate development. He has interest in the share capital of the Company as defined under the SFO which is disclosed in the paragraph "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" of the Directors' Report.

Mr. Tsui Yiu Wa, Alec, aged 57, joined the Group in March 2002. Mr. Tsui is one of the founders of WAG, a financial and management consulting services group in Hong Kong. He was the chairman of the Hong Kong Securities Institute from 2001-2004. He also serves on the board of various listed companies as an independent non-executive director. Mr. Tsui was the chief executive of iRegent Group Limited from August 2000 to February 2001. Prior to joining iRegent, he was the chief operating officer of the 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 56, joined the Group in June 2002. Mr. Yeung 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 Fujan and Jiangsu provinces. He is a member of the court and council of The University of Hong Kong. He was the council member of the Kwun Tong District Council of Hong Kong in the year 2000 to 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.

The board of directors (the "Board") of the Company presents the report of directors for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Particulars of the subsidiaries of the Company are set out in note 30 to the financial statements.

The principal activities of the Company and its subsidiaries (the "Group") are engaged in communication and technology specialising in the provision of network infrastructure services, digital solution services and publication of print media.

RESULTS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statements on page 23.

FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years ended 31st December, 2005 is set out on page 67 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 16 to the financial statements.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in notes 30 and 18 respectively to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements during the year in the share capital and outstanding warrants of the Company are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

At 31st December, 2005, the Company has no reserve available for distribution to shareholders.

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 *(Chief Executive Officer)*	
Mr. Mok Hay Hoi	(appointed on 1st June, 2005)
Ms. Au Yeung Pui Shan, Karen	(resigned on 31st July, 2005)

Non-executive directors:

Mr. Lee Peng Fei, Allen	(resigned on 1st April, 2005)
Mr. Lee Shu Fan	(resigned on 7th July, 2005)

Independent non-executive directors:

Mr. Tam Tak Wah
Mr. Tsui Yiu Wa, Alec
Mr. Yeung Pak Sing

In accordance with articles 86 and 87 of the Company's Articles of Association, Mr. Poon Shu Yan, Joseph and Mr. Mok Hay Hoi shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. All other directors continue in office.

Each of executive directors has entered into service contracts with the Company respectively for a term of three years less one day. The service contracts are terminated by either party giving to the other party not less than three calendar months' notice in writing. Each of the executive directors is entitled to a basic salary and remuneration subject to an annual revision by the Board.

Details of the directors' fees or emolument payable to directors are set out in note 11 to the financial statements.

The independent non-executive directors of the Company are appointed for a term of two years with specific terms in the letters of appointment. The contracts are terminated by either party giving to the other party not less than three calendar months' notice in writing.

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to rule 5.09 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of The Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors has entered into any service contracts with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December, 2005, the interests or short positions of the directors and chief executive of the Company and their respective associates in the shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

1. Long Positions in the shares of the Company

	Number of shares of the Company			
Directors	**Personal Interest**	**Corporate Interest**	**Total**	**Percentage held**
Poon Kwok Lim Steven	8,330,000 (1)	267,421,528 (2)	275,751,528	52%
Poon Shu Yan Joseph	8,000,000 (3)	–	8,000,000	1.51%
Mok Hay Hoi	430,000	–	430,000	0.08%
Tam Tak Wah	120,000	–	120,000	0.02%

Notes:

1. Mr. Poon Kwok Lim, Steven was beneficially owned 8,330,000 shares of the Company representing approximately 1.57% of the issued share capital of the Company. By virtue of the SFO, Mrs. Poon Wong Wai Ping ("Mrs. Poon"), the spouse of Mr. Poon Kwok Lim, Steven, was deemed to be interested in all the shares in which Mr. Poon Kwok Lim, Steven was interested.

2. Mr. Poon Kwok Lim, Steven owned 267,421,528 shares of the Company, representing approximately 50.42% of the issued share capital of the Company, through (i) Amazing Nova Corporation owned 167,886,666 shares of the Company representing approximately 31.66% of the issued share capital of the Company; (ii) Matrix Worldwide Corporation owned 61,606,666 shares of the Company representing approximately 11.62% of the issued share capital of the Company; (iii) Forever Triumph Limited owned 13,208,196 shares of the Company representing approximately 2.49% of the issued share capital of the Company; and (iv) Bright World Enterprise Limited owned 24,720,000 shares of the Company representing approximately 4.66% of the issued share capital of the Company. These shares were the same as those shares disclosed in the section "Interests and Short Positions of Shareholders" below.

   Mr. Poon Kwok Lim, Steven was entitled to exercise or control the exercise of one-third or more of the voting rights of Amazing Nova Corporation, Matrix World Corporation, Forever Triumph Limited and Bright World Enterprise Limited so he is deemed to be interested in all shares held by the aforesaid companies by virtue of the SFO. By virtue of the SFO, Mrs. Poon was deemed to be interested in all the shares in which Mr. Poon Kwok Lim, Steven was interested.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

1. Long Positions in the shares of the Company (Continued)

Notes: (Continued)

3. Mr. Poon Shu Yan, Joseph was beneficially owned 8,000,000 shares of the Company representing approximately 1.51% of the issued share capital of the Company. By virtue of the SFO, Mrs. Poon Loo Margaret Teresa, the spouse of Mr. Poon Shu Yan, Joseph, was deemed to be interested in all the shares in which Mr. Poon Shu Yan, Joseph was interested.

2. Rights to acquire shares of the Company

i. Pre-IPO Share Option Scheme

Name of Directors	Date of grant	Exercise price per share *(HK$)*	Exercisable period *(Note)*	Number of share options As at 1st January, 2005	Exercised during the year	As at 31st December, 2005
Poon Kwok Lim, Steven	24th July, 2002	0.12	17th October, 2003 to 23rd July, 2012	8,334,000	8,330,000	4,000
Poon Shu Yan, Joseph	24th July, 2002	0.12	17th October, 2003 to 23rd July, 2012	8,000,000	8,000,000	—
Mok Hay Hoi	24th July, 2002	0.21	17th October, 2003 to 23rd July, 2012	434,000	430,000	4,000

ii. Post-IPO Share Option Scheme

Name of Directors	Date of grant	Exercise price per share *(HK$)*	Exercisable period *(Note)*	Number of share options Granted during the year	As at 1st January, 2005	Exercised during the year	As at 31st December, 2005
Mok Hay Hoi	16th August, 2005	0.59	16th August, 2005 to 16th October, 2011	1,000,000	—	—	1,000,000

Save as disclosed above, none of the directors, chief executive or their associates had, as at 31st December, 2005, any interests or short provisions 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 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 Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

2. Rights to acquire shares of the Company (Continued)

Save as disclosed above, at no time during the year was the Company, its subsidiaries or holding company a party to any arrangement to enable the directors, their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OR SHORT POSITIONS OF SHAREHOLDERS

As at 31st December, 2005, the persons or corporations (not being a director or chief executive of the Company) who have interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

1. Long Positions in the shares of the Company

Name of shareholders	*Note*	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
Poon Kwok Lim, Steven	1	Beneficial owner	8,330,000	1.57%
	2,3,4,5	Interest of controlled corporation	267,421,528	50.42%
Poon Wong Wai Ping	1	Interest of spouse	8,330,000	1.57%
	2,3,4,5	Interest of controlled corporation	267,421,528	50.42%
Amazing Nova Corporation	2	Beneficial owner	167,886,666	31.66%
Matrix Worldwide Corporation	3	Beneficial owner	61,606,666	11.62%
Forever Triumph Limited	4	Beneficial owner	13,208,196	2.49%
Bright World Enterprise Limited	5	Beneficial owner	24,720,000	4.66%
Deutsche Bank Aktiengesellschaft		Beneficial owner	51,030,000	9.62%

Notes:

1. Mr. Poon Kwok Lim, Steven was beneficially owned 8,330,000 shares of the Company representing approximately 1.57% of the issued share capital of the Company. By virtue of the SFO, Mrs. Poon was deemed to be interested in all the shares in which Mr. Poon Kwok Lim, Steven was interested.

2. Amazing Nova Corporation is beneficially owned as to 40% by Mr. Poon Kwok Lim, Steven, as to 40% by Mrs. Poon. By virtue of the SFO, Mr. Poon Kwok Lim, Steven and Mrs Poon are deemed to be interested in all the shares held by Amazing Nova Corporation since both of them are entitled to exercise more than one-third of the voting power in Amazing Nova Corporation.

INTERESTS OR SHORT PORISITONS OF SHAREHOLDERS

1. Long Positions in the shares of the Company (Continued)

Notes:

3. Matrix Worldwide Corporation is wholly and beneficially owned by Mr. Poon Kwok Lim, Steven. By virtue of the SFO, Mr. Poon Kwok Lim, Steven and Mrs. Poon are deemed to be interested in all shares held by Matrix Worldwide Corporation.

4. Forever Triumph Limited is wholly and beneficially owned by Mr. Poon Kwok Lim, Steven. By virtue of the SFO, Mr. Poon Kwok Lim, Steven and Mrs. Poon are deemed to be interested in all shares held by Forever Triumph Corporation.

5. Bright World Enterprise Limited is beneficially owned as to 80% by Mr. Poon Kwok Lim, Steven and as to 20% by Mrs. Poon. By virtue of the SFO, Mr. Poon Kwok Lim, Steven and Mrs. Poon are deemed to be interested in all shares held by Bright World Enterprise Limited.

2. Long positions of the underlying shares of the Company

Warrant

	Number of warrants				
Warrantholder	**Granted on 27th February, 2004**	**Exercised during the period**	**As at 31st December, 2005**	**Number of shares of the Company issued during the year**	**Percentage held**
Lim Asia Arbitrage Fund Inc	41,010,000	16,010,000	25,000,000	16,010,000	3% *(Note)*

Note:

For the avoidance of doubt, interests in underlying shares have not been taken into account when calculating the percentages as set out above since these underlying shares have not been issued as at 31st December, 2005.

Save as disclosed above, as at 31st December, 2005, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.

SHARE OPTION SCHEMES

Pursuant to a written resolution of the sole shareholder dated 22nd July, 2002, the Company conditionally adopted and approved 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 of the Company dated 9 October 2002 (the "Prospectus").

Pre-IPO Share Option Scheme

As at 31st December, 2005, the share options to subscribe for an aggregate of 1,350,000 shares of the Company granted pursuant to the Pre-IPO Share Option Scheme were outstanding. A portion of each grantee's right to exercise the options 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 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 (the "Listing date") on a monthly basis each time from 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, being the date of publication of the Prospectus.

The details of the Pre-IPO Option Scheme as at 31st December, 2005 are set out as follows:

		Number of share options			
Category of participants	**Exercise price per share** *HK$*	**As at 1st January, 2005**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31st December, 2005**
Directors	0.12	16,334,000	16,330,000	–	4,000
	0.21	667,000	665,000	2,000	–
Advisors and consultants	0.45	1,334,000	–	–	1,334,000
Employees	0.12	434,000	430,000	–	4,000
	0.21	868,000	860,000	–	8,000
Total		19,637,000	18,285,000	2,000	1,350,000

Post-IPO Share Option Scheme

As at 31st December, 2005, the share options to subscribe for an aggregate of 7,375,000 shares of the Company granted pursuant to the Post-IPO Share Option Scheme were outstanding. The details of the Post-IPO Option Scheme as at 31st December, 2005 are set out as follows:

			Number of share options				
Category of participant	**Exercise price per share** *(HK$)*	**Date of grant**	**As at 1st January, 2005**	**Granted during the year (i)**	**Exercised during the year (ii)**	**Lapsed during the year**	**Outstanding as at 31st December, 2005**
Employee	0.152	11 October 2004	2,000,000	–	625,000	–	1,375,000
	0.59	16 August 2005	–	1,000,000	–	–	1,000,000
	0.542	6 September 2005	–	5,000,000	–	–	5,000,000
			2,000,000	6,000,000	625,000	–	7,375,000

Notes:

(i) The closing price of the shares of the Company immediately before 16th August, 2005 and 6th September, 2005, being the date of grant of the share options, was HK$0.56 and 0.54 respectively.

(ii) The closing prices of the shares of the Company immediately before the dates on which the share option exercised were HK$0.7 and HK$0.47.

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.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in note 27 to the financial statements.

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

During the year ended 31st December, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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.

COMPETING INTERESTS AND CONFLICT OF INTEREST

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 or has any other conflict of interest with the Group.

MAJOR SUPPLIERS AND CUSTOMERS

The five largest customers of the Group for the year accounted for approximately 81% of the Group's turnover. The Group's largest customer accounted for approximately 50% of its turnover for the year.

The five largest suppliers of the Group for the year accounted for approximately 48% of the Group's purchase. The Group's largest supplier accounted for approximately 26% 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.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the Code on Corporate Governance Practices as set out in the GEM Listing Rules Appendix 15 with effective from the accounting periods from 1st January, 2005. The Company prepared a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ended 31st December, 2005.

AUDIT COMMITTEE

As required by Rules 5.28 to 5.33 of the GEM Listing Rules, the Company has established an audit committee (the "Audit Committee") on 22 July 2002 with written terms of reference, which deal clearly with its authorities duties. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee comprises three independent non-executive directors, namely, Mr. Tam Tak Wah, Mr. Tsui Yiu Wa Alec and Mr. Yeung Pak Sing. Mr. Tam is the chairman of the Audit Committee.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee on 30th March, 2005 with written terms of reference, which comprises three independent non-executive directors of the Company, namely, Mr. Tam Tak Wah, Mr. Tsui Yiu Wa, Alec and Mr. Yeung Pak Sing.

POST BALANCE SHEET EVENTS

Details of the significant events occurring after the balance sheet date are set out in note 29 to the financial statements.

AUDITORS

Messrs. Deloitte Touche Tohmatsu will retire and will not seek for re-appointment as auditors of the Company at the forthcoming annual general meeting.

On behalf of the Board

Poon Kwok Lim, Steven
CHAIRMAN

31st March, 2006

A. Corporate governance practices

The Company has adopted the code provisions set out in the Code on Corporate Governance contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), which became effective on 1 January 2005 and in replacement of the board practices and procedures set out in rules 5.35 to 5.45 of the GEM Listing Rules, as its own code of corporate governance practices.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules during the year ended 31 December 2005.

B. Directors' securities transactions

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors of the Company (the "Directors"), the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2005.

C. Board of directors

The board of the Company (the "Board") currently comprises six Directors, of which three are executive directors and three are independent non-executive directors, namely,

Executive Directors:
Dr. Poon Kwok Lim Steven *(Chairman)*
Mr. Poon Shu Yan Joseph *(Chief Executive Officer)*
Mr. Mok Hay Hoi

Independent Non-Executive Directors:
Mr. Tam Tak Wah
Mr. Tsui Yiu Wa Alec
Mr. Yeung Pak Sing

The Board has four scheduled meetings at quarterly interval and meets as and when required. During the year ended 31 December 2005, the Board held 5 meetings.

The attendance of the Directors at the meetings is as follows:

Directors	**Number of attendance**
Dr. Poon Kwok Lim Steven	5/5
Mr. Poon Shu Yan Joseph	5/5
Mr. Mok Hay Hoi *(appointed on 1 June 2005)*	3/5
Mr. Tam Tak Wah	5/5
Mr. Tsui Yiu Wa Alec	4/5
Mr. Yeung Pak Sing	3/5
Mr. Lee Pang Fei Allen *(resigned on 1 April 2005)*	0
Mr. Lee Shu Fan *(resigned on 7 July 2005)*	1/5
Ms. Au Yeung Pui Shan Karen *(resigned on 31 July 2005)*	2/5

The Board is responsible for the leadership and control of the Company and oversees the Company and its subsidiaries (the "Group")'s businesses, strategic planning and decisions making. The management of the Group is delegated the authority by the Board to take up the day-to-day operations and implementation of the different aspects of the Group's businesses.

The Company appointed three independent non-executive directors ("INEDs") who have sufficient experience and qualification to carry out their duties. The qualification and experience of the INEDs set out in the Biographical Details of Directors contained in the 2005 Annual Report. In addition, the Company has received annual confirmations of independence pursuant to the rule 5.09 of the GEM Listing Rules. from all the INED. The Board has assessed their independence and concluded that all the INEDs are independent (as defined in the GEM Listing Rules).

D. The chairman and chief executive officer

The board appointed Dr. Poon Kwok Lim Steven as the chairman and Mr. Poon Shu Yan Joseph as the chief executive officer. Mr. Poon Shu Yan Joseph is a son of Dr. Poon Kwok Lim, Steven. The roles of the chairman and the chief executive officer are segregated and are not exercised by the same individual.

E. Remuneration of directors

The Company established the remuneration committee on 30 March 2005. The committee comprises three INEDs.

The role and function of the remuneration committee is to make recommendation to the Board on the Company's policy and structure for all remuneration of Directors, to establish a formal and transparent procedure for development the remuneration policy, to determine the specific remuneration packages of all executive directors and senior management, to review and approve the performance-based remuneration and the compensation payable to executive directors and senior management in connection with any loss or termination of their office, dismissal and removal, to ensure that no director or his associates is involved in decide his own remuneration, to consider other topics as defined by the Board and to ensure the chairman of the remuneration committee is available to attend the annual general meeting of the Company.

During the year under review, a meeting of the remuneration committee was held on 30 March 2005. Details of the attendance of the remuneration committee meeting is as follows:

Directors	Number of attendance
Mr. Yeung Pak Sing *(Chairman)*	1/1
Mr. Tam Tak Wah	1/1
Mr. Tsui Yiu Wa Alec	0

F. Auditors' remuneration

During the year, the remuneration paid to the auditors of the Company, Messer Deloitte Touche Tohmatsu, is set out as follows:

	Fee paid/ payable *HK$'000*
Audit services rendered	550
Non-audit services rendered	75

G. Audit Committee

The Company established an audit committee on 22 July 2002 with written terms of reference which deal clearly with its authority and duties in compliance with rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls 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 to the Board. The audit committee comprises three members, namely, Mr. Tam Tak Wah, Mr. Tsui Yiu Wa Alec and Mr. Yeung Pak Sing. All of them are the INEDs of the Company.

The audit committee held four meetings during the year ended 31 December 2005. Details of the attendance of the audit committee meetings are as follows:

Members	**Number of attendance**
Mr. Tam Tak Wah *(Chairman)*	5/5
Mr. Tsui Yiu Wa Alec	4/5
Mr. Yeung Pak Sing	3/5

Deloitte.
德勤

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

We have audited the consolidated financial statements of Vertex Communication & Technology Group Limited (the "Company") and its subsidiaries (together referred as the "Group") on pages 23 to 66 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements regarding the liquidity of the Group and the additional funding being secured by the Group. At 31st December, 2005, the Group had net current liabilities and deficit in equity of approximately HK$5,032,000 and HK$16,292,000 respectively. On the basis of the additional funding secured by the Group as detailed in note 2 and 29 to the financial statements, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon sufficient funding being available in the foreseeable future. The financial statements do not include any adjustments that may result from the failure to obtain such funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Group as at 31st December, 2005 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

31st March, 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2005

	NOTES	**2005** **HK$'000**	2004 HK$'000 (restated)
Turnover	6	**12,036**	7,283
Other operating income		**400**	25
Royalty and production costs		**(13,997)**	(10,294)
Staff costs		**(13,277)**	(11,565)
Subcontracting costs		**(1,037)**	(1,997)
Depreciation of property, plant and equipment		**(923)**	(1,088)
Other operating expenses		**(10,885)**	(13,339)
Finance costs	8	**(851)**	(723)
Impairment loss recognised in respect of property, plant and equipment	16	**(233)**	–
Impairment loss recognised in respect of goodwill	17	**(11,482)**	(229)
Impairment loss recognised in respect of investment securities		**–**	(4,600)
Impairment loss recognised in respect of deferred expenditure for publication		**–**	(4,709)
Gain on disposal of available-for-sale investment		**3,189**	–
Gain on partial disposal of a subsidiary	10	**19,300**	–
Gain on deemed partial disposal of subsidiaries		**–**	11,968
Loss before taxation	9	**(17,760)**	(29,268)
Taxation	13	**–**	–
Loss for the year		**(17,760)**	(29,268)
Attributable to:			
Equity holders of the Company		**(17,728)**	(28,860)
Minority interests		**(32)**	(408)
		(17,760)	(29,268)
Loss per share	15		
– Basic and diluted		**HK3.43 cents**	HK5.83 cents

CONSOLIDATED BALANCE SHEET

At 31st December, 2005

	NOTES	2005 HK$'000	2004 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	16	**2,467**	2,213
Goodwill	17	**–**	–
Interests in associates	18	**–**	–
Available-for-sale investments/ investment in securities	19	**–**	1,400
		2,467	3,613
Current assets			
Trade receivables	20	**6,172**	3,973
Amounts due from customers for contract work		**–**	424
Prepayments, deposits and other receivables	20	**2,597**	649
Bank balances and cash	20	**9,506**	10,225
		18,275	15,271
Current liabilities			
Trade payables	21	**3,401**	1,789
Other payables and accrued expenses	21	**6,409**	4,076
Amounts due to related companies	22	**13,489**	–
Taxation		**8**	8
		23,307	5,873
Net current (liabilities) assets		**(5,032)**	9,398
		(2,565)	13,011
Capital and reserves			
Share capital	23	**5,303**	4,954
Reserves		**(21,763)**	(13,831)
Equity attributable to equity holders of the parent		**(16,460)**	(8,877)
Minority interests		**168**	–
Total equity		**(16,292)**	(8,877)
Non-current liabilities			
Amount due to a related company	22	**–**	8,700
Bonds, secured	24	**13,727**	13,188
		13,727	21,888
		(2,565)	13,011

The financial statements on pages 23 to 66 were approved and authorised for issue by the Board of Directors on 31st March, 2006 and are signed on its behalf by:

DIRECTOR	*DIRECTOR*
POON KWOK LIM STEVEN	**POON SHU YAN JOSEPH**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2005

	Attributable to equity holders of the parent									
	Share capital	**Share premium**	**Special reserve**	**Warrant reserve**	**Translation reserve**	**Share options reserve**	**Accumu-lated losses**	**Total**	**Minority interest**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January, 2004 as originally stated	4,922	66,683	1,000	–	–	–	(55,882)	16,723	–	16,723
Reclassification	–	–	–	–	–	–	–	–	408	408
At 1st January, 2004 as restated	4,922	66,683	1,000	–	–	–	(55,882)	16,723	408	17,131
Net loss and total recognised expenses for the year	–	–	–	–	–	–	(28,860)	(28,860)	(408)	(29,268)
Recognition of equity component of bonds	–	–	–	2,871	–	–	–	2,871	–	2,871
Exercise of share options	32	357	–	–	–	–	–	389	–	389
At 31st December, 2004 and 1st January, 2005 as restated	4,954	67,040	1,000	2,871	–	–	(84,742)	(8,877)	–	(8,877)
Exchange differences arising on translation of foreign operations	–	–	–	–	(71)	–	–	(71)	–	(71)
Net expense recognised directly in equity	–	–	–	–	(71)	–	–	(71)	–	(71)
Loss for the year	–	–	–	–	–	–	(17,728)	(17,728)	(32)	(17,760)
Total recognised expenses for the year	–	–	–	–	(71)	–	(17,728)	(17,799)	(32)	(17,831)
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	200	200
Recognition of equity-settled share based payments	–	–	–	–	–	200	–	200	–	200
Exercise of share options	189	2,238	–	–	–	–	–	2,427	–	2,427
Exercise of warrants	160	8,550	–	(1,121)	–	–	–	7,589	–	7,589
At 31st December, 2005	5,303	77,828	1,000	1,750	(71)	200	(102,470)	(16,460)	168	(16,292)

The accumulated losses of the Group included accumulated losses of HK$1,967,000 (2004: HK$1,967,000) attributable to associates of the Group.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000 (restated)
OPERATING ACTIVITIES		
Loss before taxation	(17,760)	(29,268)
Adjustments for:		
Finance costs	851	723
Interest income	(145)	(14)
Amortisation of deferred expenditure for publication	–	387
Amortisation of goodwill	–	53
Allowances for bad and doubtful debts	12	371
Depreciation	923	1,088
Gain on disposal of available-for-sale investment	(3,189)	–
Gain on partial disposal of a subsidiary	(19,300)	–
Gain on deemed partial disposal of subsidiaries	–	(11,968)
Impairment loss recognised in respect of goodwill	11,482	229
Impairment loss recognised in respect of investment securities	–	4,600
Impairment loss recognised in respect of deferred expenditure for publication	–	4,709
Impairment loss recognised in respect of property, plant and equipment	233	–
Loss on disposal of property, plant and equipment	274	1,042
Share-base payment expenses	200	–
Operating cash flows before movements in working capital	(26,419)	(28,048)
Increase in trade receivables	(2,211)	(1,608)
Decrease in amounts due from customers for contract work	424	815
(Increase) decrease in prepayments, deposits and other receivables	(1,948)	557
Increase in amount due from an associate	–	(52)
Increase in trade payables	1,612	1,448
Increase in other payables and accrued expenses	2,333	2,351
Cash used in operations	(26,209)	(24,537)
Income taxes paid	–	–
NET CASH USED IN OPERATING ACTIVITIES	(26,209)	(24,537)
INVESTING ACTIVITIES		
Acquisition of additional registered capital in subsidiaries	(11,482)	–
Interest received	145	14
Purchase of property, plant and equipment	(1,686)	(848)
Proceeds on disposal of available-for-sale investment	4,500	–
Proceeds from disposal of property, plant and equipment	2	903
Proceeds from partial disposal of a subsidiary	19,500	–
NET CASH FROM INVESTING ACTIVITIES	10,979	69

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2005

	2005 HK$'000	2004 HK$'000 (restated)
FINANCING ACTIVITIES		
Advance from a related company	**4,789**	5,500
Contribution from a minority shareholder	**–**	11,968
Proceeds from issue of bonds	**–**	15,600
Interest paid	**(312)**	(264)
Proceeds from issue of shares	**10,016**	389
NET CASH FROM FINANCING ACTIVITIES	**14,493**	33,193
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(737)**	8,725
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**10,225**	1,500
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**18**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR	**9,506**	10,225
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	**9,506**	10,225

1. CORPORATION INFORMATION

Vertex Communications & Technology Group Limited (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 network infrastructure services, digital solution services as well as publication of print media.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities and deficit in equity of approximately HK$5,032,000 and HK$16,292,000 respectively as at 31st December, 2005. On 24th March, 2006, a subscription agreement was entered into by the Coastal Power Company Limited ("Coastal Power"), a subsidiary of the Company, and other third parties to issue US dollar denominated Convertible Bonds at par by Coastal Power at the aggregate principal amount of US$4,000,000. On this basis, the directors of the Company believe that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Business combinations

In the current year, the Group has applied HKFRS 3 Business Combinations which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. On 1st January, 2005, the Group eliminated the carrying amount of the related accumulated amortisation of approximately HK$743,000 with a corresponding decrease in the cost of goodwill. The Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

All investment in securities of the Group as at 31st December, 2004 amounting to HK$1,400,000 have been reclassified to available-for-sale investments in accordance with HKAS 39 on 1st January, 2005.

The adoption of this new standard has had no material effect on how the results for the prior accounting years are prepared and presented. According, no adjustment has been required on 1st January, 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. This change has had no material effect on the results for the current and prior accounting periods.

Bonds issued with warrants

Previously, the bonds were classified as liabilities on the balance sheet. HKAS 32 requires an issuer of a compound financial instrument to separate the compound financial instrument into, liability component and equity component on initial recognition and HKAS 39 requires derivative embedded in a financial instrument to be treated as separate derivative when its economic risk and characteristic are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. HKAS 32 requires the carrying amount of the equity component to be determined by deducting the fair value of the financial liability (including the early redemption option derivative embedded in the liability component) from the fair value of the compound financial instrument as a whole. The liability component (including the early redemption option derivative) is estimated using the prevailing market rate for similar non-convertible debt at the date of issue. Issue costs are apportioned between the components of the bonds based on their relative fair value at the date of issue, the portion relating to the derivative (which is required to be separated from the host contract) is charged directly to profit or loss. In subsequent periods, the liability component is measured at amortised cost, using the effective interest rate method. The interest charged on the liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid is added to the carrying amount of the liability component. The early redemption option derivative is subsequently measured at fair value at each balance sheet date. Because HKAS 32 requires retrospective application, comparative figures for 2004 have been restated to separately present the liability component (including the early redemption option derivative) and equity component. Comparative profit for 2004 has been restated in order to reflect the increase in effective interest on the liability component. (See note 3A for the financial impact)

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (Continued)

Bonds issued with warrants (Continued)

The Group has applied the relevant transitional provisions in HKAS39. For the derivatives do not meet the requirements of hedge accounting in accordance with HKAS39, the Group has, from 1st January, 2005 onwards, deemed such derivatives as held for trading. The application of transitional provisions has had no material effect on how the results for the prior accounting years are prepared and presented. According, no adjustment has been required on 1st January, 2005.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st January, 2005 and recognised share option expense of HK$200,000, in the income statement for the current year. The Group is required to apply HKFRS 2 retrospectively to share options that were granted after 7th November, 2002 and had not yet vested on 1st January, 2005. The adoption of this new standard has had no material effect on how the results for the prior accounting years are prepared and presented as all share options granted prior to 1st January, 2005 were either granted before 7th November, 2002 or vested before 1st January, 2005. Accordingly, no prior year adjustment has been required.

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 **HK$'000**	2004 HK$'000
Increase in effective interest on liability component of the bonds issued with warrants	**539**	459
Expenses in relation to share options granted to directors and employees	**200**	–
Increase in loss for the year	**739**	459
Attributable to:		
Equity holders of the parent	**739**	459
Minority interest	**–**	–
	739	459

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs on 31st December, 2004 and 1st January, 2005 are summarised below:

	At 31st December, 2004 HK$'000 (originally stated)	Adjustment HK$'000	At 31st December, 2004 HK$'000 (restated)	Adjustment HK$'000	**At 1st January, 2005 HK$'000 (restated)**
Investment in securities	1,400	–	1,400	(1,400)	**–**
Available-for-sale investments	–	–	–	1,400	**1,400**
Bonds, secured	(15,600)	2,412	(13,188)	–	**(13,188)**
Other assets/liabilities	2,911	–	2,911	–	**2,911**
Net liabilities	(11,289)	2,412	(8,877)	–	**(8,877)**
Share capital	4,954	–	4,954	–	**4,954**
Warrant reserve	–	2,871	2,871	–	**2,871**
Accumulated losses	(84,283)	(459)	(84,742)	–	**(84,742)**
Other reserve	68,040	–	68,040	–	**68,040**
	(11,289)	2,412	(8,877)	–	**(8,877)**

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated HK$'000	**Adjustment** HK$'000	**As restated** HK$'000
Minority interests	–	408	408
Total effects on equity	–	408	408

3A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new standards interpretations and amendments that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, interpretations or amendments will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[3]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2006.
3 Effective for annual periods beginning on or after 1st December, 2005.
4 Effective for annual periods beginning on or after 1st March, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values at initial recognition, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

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. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet as an intangible asset. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units ("CGUs"), or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated 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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including trade receivables and prepayments, deposits and other receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories (set out above). At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not be reversed through profit or loss in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade payables, and other payables and accrued expenses are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Equity share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Revenue recognition

Income derived from network infrastructure services and digital solution services is recognised in accordance with the policy as set out for construction contracts.

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 from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Advertising barter transactions

Revenue and expense from an advertising barter transaction are recognised at fair value only if the fair value of the advertising services surrendered in the transaction can be determined by reference to non-barter transactions that involves cash of similar advertising services that occurs frequently with buyers unrelated to the counter-party in the barter transaction.

When the fair value of the services received cannot be measured reliably, barter revenue and expenses are measured at the fair value of the services given up, adjusted by the amount of any cash or cash equivalents transferred. If the outcome of the transaction cannot be measured reliably, revenue should only be recognised to the extent of costs that are recoverable.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1st January, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 items of income and expense 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 consolidation 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 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 is 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.

Retirement benefits costs

Payments to state-managed retirement benefit scheme and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Impairment losses (other than goodwill)

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. An 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, but so 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.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bonds, amounts due to related parties, trade receivables, trade payables and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Certain trade receivables, trade payables and the bonds issued by the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The Group's bank balances and cash are deposited with banks in Hong Kong and PRC and the Group has limited the exposure to any single financial institution. The credit risk on liquid funds is limited because the counterparties are banks with good credit-rating. The Group has concentration of credit risks on trade receivables with exposure limited to certain counterparties and customers. The management closely monitors the subsequent settlement of the customers and does not grant long credit period to the counterparties. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

As mentioned in note 2, the Group had deficit in equity of approximately HK$16,292,000 as at 31st December, 2005. Since the balance sheet date, the directors of the Company have taken various active steps to obtain additional funding to the Group. Provided that the additional funding can be secured, the directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

6. TURNOVER

An analysis of the Group's turnover is as follows:

	2005	2004
	HK$'000	HK$'000
Income from publication of print media		
Advertising income	**10,703**	4,586
Sales of magazines	**17**	662
Service income from digital solution services	**1,316**	1,722
Network infrastructure service income	**–**	313
	12,036	7,283

During the year, the Group's revenue from advertising barter transactions was HK$1,295,000 (2004: Nil).

The fair value of the advertising barter transactions can be determined by reference to non-barter transactions that involves cash of similar advertising services that occurs frequently with buyers unrelated to the counter-party in the barter transaction.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating segments, namely network infrastructure services (formerly described as "communication infrastructure"), digital solution services (formerly described as "application and development of content delivery technology") and publication of print media (formerly described as "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:

Network infrastructure services	–	provision of network infrastructure services
Digital solution services	–	provision of information technology solutions including web solutions and system integration
Publication of print media	–	production and procurement of media contents

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below.

Income statement for the year ended 31st December, 2005

	Network infrastructure services HK$'000	Digital solution services HK$'000	Print media HK$'000	Consolidated HK$'000
TURNOVER	–	1,316	10,720	12,036
RESULTS				
Segment results	(113)	(432)	(13,868)	(14,413)
Other operating income				400
Unallocated corporate expenses				(13,670)
Finance costs				(851)
Gain on partial disposal of a subsidiary				19,300
Gain on disposal of available-for-sale investment	–	–	3,189	3,189
Impairment loss recognised in respect of goodwill	–	(112)	(11,370)	(11,482)
Impairment loss recognised in respect of property, plant and equipment	–	–	(233)	(233)
Loss before taxation				(17,760)
Taxation				–
Loss for the year				(17,760)

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Balance sheet as at 31st December, 2005

	Network infrastructure services HK$'000	Digital solution services HK$'000	Print media HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	66	875	7,034	7,975
Unallocated corporate assets				12,767
Consolidated total assets				20,742
LIABILITIES				
Segment liabilities	10	540	7,646	8,196
Unallocated corporate liabilities				28,838
Consolidated total liabilities				37,034

Other information for the year ended 31st December, 2005

	Network infrastructure services HK$'000	Digital solution services HK$'000	Print media HK$'000	Unallocated HK$'000	Consolidated HK$'000
Allowances for bad and doubtful debts	12	–	–	–	12
Additions to property, plant and equipment	–	–	543	1,143	1,686
Depreciation	–	–	138	785	923
Loss on disposal of property, plant and equipment	–	–	1	273	274
Impairment losses recognised for goodwill	–	112	11,370	–	11,482
Impairment loss recognised for property, plant and equipment	–	–	233	–	233

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Income statement for the year ended 31st December, 2004

	Network infrastructure services HK$'000	Digital solution services HK$'000	Print media HK$'000	Consolidated HK$'000 (restated)
TURNOVER	313	1,722	5,248	7,283
RESULTS				
Segment results	(2,571)	(1,243)	(22,530)	(26,344)
Other operating income				25
Unallocated corporate expenses				(14,194)
Finance costs				(723)
Gain on deemed partial disposal of subsidiaries	–	–	11,968	11,968
Loss before taxation				(29,268)
Taxation				–
Loss after taxation and before minority interests				(29,268)

Balance sheet as at 31st December, 2004

	Network infrastructure services HK$'000	Digital solution services HK$'000	Print media HK$'000	Consolidated HK$'000 (restated)
ASSETS				
Segment assets	832	1,675	13,422	15,929
Unallocated corporate assets				2,955
Consolidated total assets				18,884
LIABILITIES				
Segment liabilities	438	640	4,215	5,293
Unallocated corporate liabilities				22,468
Consolidated total liabilities				27,761

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Other information for the year ended 31st December, 2004

	Network infrastructure services HK$'000	Digital solution services HK$'000	Print media HK$'000	Unallocated HK$'000	Consolidated HK$'000
Allowances for bad and doubtful debts	319	–	–	52	371
Additions to property, plant and equipment	57	–	95	696	848
Amortisation of deferred expenditure for publication	–	–	387	–	387
Amortisation of goodwill	–	–	53	–	53
Depreciation	485	533	53	17	1,088
Loss on disposal of property, plant and equipment	762	280	–	–	1,042
Impairment losses recognised	–	–	9,538	–	9,538

Geographical segments

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

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000 (restated)
Interest on bonds wholly repayable within five years	**851**	723

9. LOSS BEFORE TAXATION

	2005 HK$'000	2004 HK$'000
Loss before taxation has been arrived at after charging (crediting):		
Allowances for bad and doubtful debts	**12**	371
Amortisation of deferred expenditure for publication (included in other operating expenses)	**–**	387
Amortisation of goodwill (included in other operating expenses)	**–**	53
Auditors' remuneration	**550**	400
Loss on disposal of property, plant and equipment	**274**	1,042
Operating lease rentals in respect of land and buildings	**2,064**	1,798
Staff costs, including directors' remuneration		
Retirement benefits schemes contributions	**380**	365
Salaries and allowances	**12,897**	11,200
	13,277	11,565
Interest income on bank deposits	**(145)**	(14)

10. GAIN ON PARTIAL DISPOSAL OF A SUBSIDIARY

During the year, 20% issued share capital of Coastal Power, a wholly owned subsidiary of the Company was disposed to Ali Khali Athb A-Sabah, an independent third party, for a consideration of HK$19,500,000.

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2004: 8) directors were as follows:

	Poon Kwok Lim, Steven HK$'000	Poon Shu Yan, Joseph HK$'000	Au Yeung Pui Shan, Karen HK$'000	Lee Peng Fei, Allen HK$'000	Lee Shu Fan HK$'000	Tsui Yiu Wa, Alec HK$'000	Yeung Pak Sing HK$'000	Tam Tak Wah HK$'000	Mok Hay Hoi HK$'000	Total 2005 HK$'000
Fees	100	100	58	38	78	200	200	120	58	952
Other emoluments										
– Executive directors:										
– salaries and other benefits	1,080	984	246	-	-	-	-	-	350	2,660
– retirement benefits schemes contributions	12	12	7	-	-	-	-	-	7	38
– share based payments	-	-	-	-	-	-	-	-	83	83
Total emoluments	1,192	1,096	311	38	78	200	200	120	498	3,733

	Poon Kwok Lim, Steven HK$'000	Poon Shu Yan, Joseph HK$'000	Au Yeung Pui Shan, Karen HK$'000	Lee Peng Fei, Allen HK$'000	Lee Shu Fan HK$'000	Tsui Yiu Wa, Alec HK$'000	Yeung Pak Sing HK$'000	Tam Tak Wah HK$'000	Total 2004 HK$'000
Fees	100	100	100	150	142	200	200	18	1,010
Other emoluments									
– Executive directors:									
– salaries and other benefits	1,080	984	492	–	160	–	–	–	2,716
– retirement benefits schemes contributions	12	12	12	–	2	–	–	–	38
Total emoluments	1,192	1,096	604	150	304	200	200	18	3,764

* Mr. Mok Hay Hoi was appointed as the director of the Company on 1st June, 2005.

No directors of the Company waived any emoluments in the years ended 31st December, 2004 and 2005.

12. EMPLOYEES' EMOLUMENTS

Of the five highest paid individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company, whose emoluments are included in the above disclosures. The emoluments of the remaining two (2004: two) individuals were set out as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and other benefits	**1,200**	1,080
Retirement benefits schemes contributions	**24**	24
	1,224	1,104

Their emoluments were within the following bands:

	2005	2004
	HK$'000	HK$'000
HK$1,000,000 or less	**2**	2

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.

13. TAXATION

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

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

	2005	2004
	HK$'000	HK$'000 (restated)
Loss before taxation	**(17,760)**	(29,268)
Taxation at income tax rate of 17.5%	**(3,108)**	(5,122)
Tax effect of income that is not taxable in determining taxable profit	**(3,863)**	(2,097)
Tax effect of estimated tax losses for which deferred tax assets have not been recognised	**4,807**	5,926
Tax effect of expenses that are not deductible in determining taxable profit	**2,164**	1,293
Taxation for the year	**–**	–

At the balance sheet date, the Group had unused estimated tax losses of approximately HK$103,269,000 (2004: HK$75,800,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

14. DIVIDEND

No dividend was paid or proposed for 2004 and 2005, nor has any dividend been proposed since the balance sheet date.

15. LOSS PER SHARE

	2005 HK$'000	2004 HK$'000 (restated)
Loss attributable to equity holders of the Company for the purpose of basic and diluted loss per share	**(17,728)**	(28,860)
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**516,863,109**	495,064,029

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme and warrants since their exercises would result in a reduction in net loss per share.

Impact of changes in accounting policies

Changes in the Group's accounting policies during the year are described in details in note 3. To the extent that those changes have had an impact on results reported for the year ended 31st December, 2005 and 31st December, 2004, they have had an impact on the amounts reported for loss per share. The following table summaries that impact on basic and diluted loss per share:

	2005	2004
Increase in effective interest on liability component of the bonds issued with warrants	**0.10**	0.09
Expenses in relation to share options granted to directors and employees	**0.04**	–
	0.14	0.09

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
COST				
At 1st January, 2004	395	6,401	205	7,001
Additions	–	848	–	848
Disposals	(263)	(2,802)	(205)	(3,270)
At 31st December, 2004	132	4,447	–	4,579
Additions	863	623	200	1,686
Disposals	(186)	(856)	–	(1,042)
At 31st December, 2005	809	4,214	200	5,223
DEPRECIATION				
At 1st January, 2004	53	2,503	47	2,603
Provided for the year	57	1,014	17	1,088
Eliminated on disposals	(89)	(1,172)	(64)	(1,325)
At 31st December, 2004	21	2,345	–	2,366
Impairment loss recognised in profit or loss	–	233	–	233
Provided for the year	79	817	27	923
Eliminated on disposals	(44)	(722)	–	(766)
At 31st December, 2005	56	2,673	27	2,756
NET BOOK VALUES				
At 31st December, 2005	753	1,541	173	2,467
At 31st December, 2004	111	2,102	–	2,213

The above items of property, plant and equipment are depreciated on a straight-line basis at 20% per annum.

During the year, the directors conducted a review of the Group's furniture, fixtures and office equipment and determined that a number of those assets were impaired. Accordingly, an impairment loss of approximately HK$233,000 has been recognised in respect of the furniture, fixtures and office equipment, which are used in the group print media segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rates in measuring the amounts of value in use was 7%.

17. GOODWILL

	THE GROUP HK$'000
COST	
At 1st January, 2004 and 1st January, 2005	3,585
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 3)*	(743)
Arising on acquisition of additional interest in a subsidiary	11,482
AT 31st December, 2005	14,324
AMORTISATION AND IMPAIRMENT	
At 1st January, 2004	3,303
Charged for the year	53
Impairment loss recognised	229
At 1st January, 2005	3,585
Elimination of accumulated amortisation upon the application of HKFRS 3	(743)
Impairment loss recognised for the year	11,482
AT 31st December, 2005	14,324
CARRYING VALUES	
At 31st December, 2005	–
At 31st December, 2004	–

Until 31st December, 2004, goodwill had been amortised over its estimated useful life, ranging from 5 to 10 years.

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 4. The carrying amount of goodwill acquired through acquisitions are allocated to the CGUs represented by following segments for impairment testing:

	THE GROUP HK$'000
Digital solution services	112
Print media	11,370
	11,482

The recoverable amounts of the above CGUs have been determined based on a value-in-use calculation which in turn is based on financial projections of the Group. The discounted rate applied to the cash flow projections is 7%. Based on the impairment testing of goodwill, in the opinion of the Directors, impairment loss of approximately HK$11,482,000 is recognised in the current year.

17. GOODWILL (Continued)

Key assumptions used in value-in-use calculations:

The key assumptions on which management has based its cash flow projections of three years to undertake impairment testing of goodwill are set out below:

(a) Budgeted turnover was projected with reference to the expected earnings from each segment;

(b) Budgeted operating expenses with reference to the latest management accounts;

(c) Budgeted finance costs were projected with reference to i) the expected future interest rates and ii) the expected level of borrowings; and

(d) For the business environment, there will be no material change in the existing political, legal, regulatory, fiscal or economic conditions, bases or rates of taxation or duties in Hong Kong, or any of the countries in which the Group operates or in which the Group companies are incorporated or registered.

18. INTERESTS IN ASSOCIATES

	2005 HK$'000	2004 HK$'000
Cost of investment in associates – unlisted	**1,967**	1,967
Share of post-acquisition losses	**(1,967)**	(1,967)
	–	–

At 31st December, 2005, 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	Principal activity
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 i)*	Inactive
East Art International Limited	Incorporated	Hong Kong	Ordinary	31%	Inactive
Sino East Oil Services Limited ("Sino East Oil")	Incorporated	British Virgin Islands	Ordinary	50% *(note ii)*	Inactive

18. INTERESTS IN ASSOCIATES (Continued)

Notes:

(i) The Group holds a 51% interest in Beijing CAV Vertex. However, under the agreement entered into between the Group and the other shareholder, the other shareholder 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.

(ii) The directors consider that the Group merely exercises significant influence over Sino East Oil and it is therefore classified as an associate of the Group.

(iii) The principal place of operation of the associates is Hong Kong except Beijing CAV Vertex which is operated in other regions in the PRC.

(iv) The associates of the Group were inactive during the year. The directors consider that the assets, liabilities and amounts of unrecognised share of losses of those associates are insignificant.

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT IN SECURITIES

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Non-current:		
Unlisted equity securities	–	6,000
Impairment loss recognised	–	(4,600)
	–	1,400

The amount represents the Group's investments held in 天意華創峰廣告有限公司, a private company registered in the PRC. The Group held a 16% equity interest in this company. This investment is classified as available-for-sale investments upon the application of HKAS 39 (see note 3) and continue to be carried at cost less impairment.

During the year, the Group disposed of the unlisted equity securities with carrying amount of HK$1,400,000. A gain on disposal of HK$3,189,000 was recognised in the income statement.

20. CURRENT FINANCIAL ASSETS

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	
	2005	2004
	HK$'000	HK$'000
0 to 60 days	**1,986**	2,601
61 to 90 days	**1,185**	749
91 to 180 days	**2,999**	186
Over 180 days	**2**	437
Trade receivables	**6,172**	3,973

The bank balances and cash of the Group are mainly denominated in Hong Kong dollars.

The directors consider that the carrying amounts of trade receivables, other receivables and bank balances and cash approximate their fair value.

21. CURRENT FINANCIAL LIABILITIES

The aged analysis of trade payables is stated as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
0 to 30 days	**1,315**	1,292
31 to 60 days	**333**	342
61 to 90 days	**757**	49
91 to 180 days	**904**	–
Over 180 days	**92**	106
	3,401	1,789

Other payables and accrued expenses principally comprise amounts outstanding for trade purposes and ongoing costs. The directors consider that the carrying amount of trade payables, other payables and accrued expenses approximate their fair value.

22. AMOUNTS DUE TO RELATED COMPANIES

The amounts represent advances from Bright World Enterprise Limited and Forever Triumph Limited, in which Mr. Poon Kwok Lim, Steven has a beneficial interest and Messrs. Poon Kwok Lim, Steven and Poon Shu Yan, Joseph are also directors. The amounts are unsecured, non-interest bearing and have no fixed repayment terms.

The directors consider that the carrying amount of the amounts due to related companies approximates their fair value.

In 2004, the amount represented advance from Bright World Enterprise Limited. In the opinion of the directors, the amount would not be required to repay in the next twelve months and the amount was classified as a non-current liability.

23. SHARE CAPITAL OF THE COMPANY

	Number of shares		Share capital	
	2005	2004	**2005**	2004
	'000	'000	**HK$'000**	HK$'000
Ordinary shares of HK$0.01 each				
Authorised:				
At 1st January and 31st December	**60,000,000**	60,000,000	**600,000**	600,000
Issued and fully paid:				
At 1st January	**495,420**	492,196	**4,954**	4,922
Exercise of share options	**18,910**	3,224	**189**	32
Exercise of warrants	**16,010**	–	**160**	–
At 31st December	**530,340**	495,420	**5,303**	4,954

Warrants

During the year, 16,010,000 warrants were exercised. At the balance sheet date, the Company had outstanding 25,000,000 warrants. The exercise in full of such warrants would result in the issue of 25,000,000 additional ordinary shares of HK$0.01 each.

24. BONDS, SECURED

On 27th February, 2004, the Company issued bonds in an aggregate amount of US$2,000,000 (the "Bonds") to LIM Asia Arbitrage Fund Inc. ("LIM Fund"), together with warrants which entitled the Bondholder to subscribe for the ordinary shares of the Company.

The Company has the right to repay early part or the entire amount and the accrued interest of the bonds at any time prior to the maturity date. The Directors had assessed the fair value of the early redemption right and considered the fair value is insignificant.

The bonds, which are transferable, bear a coupon of 2 per cent. per annum which will be payable bi-annually on the last business day in June and December of each year and will mature on 27th February, 2009. The Company may, at any time by giving 30 days prior notice to the bondholders, redeem the bonds prior to the maturity date. The bondholders have no right to request for early repayment.

The bonds are secured by a charge of 10,000 ordinary shares in Vertex Media Ltd, 160,000 ordinary shares in Vertex (Gulf) Enterprises Holdings Limited and 2 ordinary shares in Vertex TRC Publishing Company Limited, being the Company's entire interests in these companies, in favour of LIM Fund.

The warrants entitled the Bondholder to subscribe for 41,010,000 ordinary shares of HK$0.10 each of the Company at a subscription price of HK$0.474 each at any time between 27th February, 2004 to 27th February, 2009, both dates inclusive.

The net proceeds received from the issue of Bonds attaching the warrants therefore contain a liability element and an equity element which are required to be separately accounted for in accordance with HKAS 32 retrospectively. An effective rate of 6.4% p.a. is used to determine the fair value of the liability element at initial recognition.

	2005 **HK$'000**	2004 HK$'000
Liability component at date of issue	**13,188**	12,729
Interest charged *(Note 9)*	**851**	723
Interest paid	**(312)**	(264)
Liability component at 31st December, 2005	**13,727**	13,188

During the year, 16,010,000 warrants were exercised. At the balance sheet date, the Company had outstanding 25,000,000 warrants.

The fair value of the bonds was approximate to the carrying amount at the balance sheet date.

25. LEASE COMMITMENTS

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

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Within one year	**1,596**	1,085
In the second to fifth year inclusive	**1,991**	330
	3,587	1,415

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

26. SHARE-BASED PAYMENT TRANSACTIONS

(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 share 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 share option offer. The share option offer will be offered for acceptance for a period of 14 days from the date on which the offer is granted.

(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 of Hong Kong Limited (the "Stock Exchange's") daily quotations sheet on the date of grant of the share 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.

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

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

(vi) The limit on the number of shares which may be issued upon exercise of all outstanding share 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.

(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 share 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. Share 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.

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

(b) Pre-initial public offering share option scheme

As at 31st December, 2005, 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 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 1,350,000 (2004: 19,637,000) equivalent to approximately 0.25% (2004: 3.96%) 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

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

As at 31st December, 2005, the share options to subscribe for an aggregate of 1,350,000 (2004: 19,637,000) 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, advisors 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 share 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 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 share 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.

The share options to subscribe for an aggregate of 6,000,000 (2004: 2,000,000) shares of the Company were granted by the Company under the Post-IPO Option Scheme during the year. The share options granted shall vest over a period of 4 years on a monthly basis each time for 1/48th of the total number of shares comprised in the share option and, subject to that no share option granted under the Post-IPO Option Scheme can be exercised before 12 months after the vesting commencement date, any vested right shall remain exercisable on or before 10th October, 2014.

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The following tables disclose details of the Company's share options held by directors, employees as well as advisors and consultants and movements in such holdings:

	Number of share options				
Option type	**Outstanding at 1.1.2005**	**Granted during the year** *(Note ii)*	**Exercised during the year** *(Note iii)*	**Lapsed during the year** *(Note i)*	**Outstanding at 31.12.2005**
Pre-IPO option scheme	19,637,000	–	(18,285,000)	(2,000)	1,350,000
Post-IPO option scheme	2,000,000	6,000,000	(625,000)	–	7,375,000
	21,637,000	6,000,000	(18,910,000)	(2,000)	8,725,000
Exercisable at the end of the year					2,266,667
Weighted average exercise price	0.15	0.29	0.29	0.21	0.29

Notes:

(i) These options were lapsed as the employees were resigned from the Group.

(ii) The closing prices of the Company's shares immediately before 16th August, 2005 and 6th September, 2005, the dates of grant of the share options were HK$0.56 and HK$0.54 respectively.

(iii) The closing price of the Company's shares immediately before the dates on which the share options were exercised were HK$0.58, HK$0.49, HK$0.7, HK$0.69, HK$0.56 and HK$0.46 respectively.

The following table discloses movements of the Company's share options held by the Directors employees as well as advisors and consultants in prior year:

	Number of share options				
Option type	**Outstanding at 1.1.2004**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding at 31.12.2004**
Pre-IPO option scheme	25,630,000	–	(3,224,000)	(2,769,000)	19,637,000
Post-IPO option scheme	–	2,000,000	–	–	2,000,000
	25,630,000	2,000,000	(3,224,000)	(2,769,000)	21,637,000
Exercisable at the end of the year					19,637,000
Weighted average exercise price	0.15	0.15	0.12	0.21	0.15

26. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

As mentioned in note 3, the Group has, for the first time, applied HKFRS 2 "Share-based Payments" to account for its share options in the current year. In accordance with HKFRS 2, fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share option reserve. In the current year, the Group recognised the share option expenses of HK$200,000 in relation to share options granted by the Company (HK$83,000 related to a Director, see note 11), with a corresponding adjustment recognised in the Group's share option reserve.

The Company has used the Black-Scholes option pricing model (the "Model") to value the share options granted during the year. The Model is one of the commonly used models to estimate the fair value of an option. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

These fair values were calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

	16.8.2005	6.9.2005
Share price on date of grant	**HK$0.56**	HK$0.54
Exercise price	**HK$0.59**	HK$0.542
Expected volatility *(Note a)*	**23%**	23.4%
Expected life of option *(Note b)*	**10 years**	10 years
Risk-free rate *(Note c)*	**4.0%**	4.0%

The estimated fair value of the options granted on 16th August, 2005 and 6th September, 2005 are HK$257,000 and HK$1,170,000 respectively.

Notes:

(a) Expected volatility: being the approximate historical volatility of closing prices of the share of the Company in the past one year immediately before the date of grant.

(b) Expected life of option: being the period of 10 years commencing on the date of grant.

(c) Risk free rate: being the approximate yields of 10-year Hong Kong Exchange Fund Notes traded on the date of grant, matching the expected life of each option.

27. 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.

The employer's contributions to the retirement benefits scheme charged to the income statement and amounted to approximately HK$380,000 (2004: HK$365,000) for the year ended 31 December 2005.

28. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	HK$'000
Commitment to subscribe for shares	**–**	980

29. POST BALANCE SHEET EVENTS

(i) During the year, the Company entered into the shareholders' agreement with China Power International Holding Limited ("CPI") to form a joint venture company (the "JV Company"), in which CPI and the Company will hold 70% and 30% interest respectively. The JV Company will be named as China Hong Kong Power Development Company Limited and engaged in the electric power generation and electricity supply business in Hong Kong including the power generation and transmission, supply of electricity to Hong Kong consumers, sourcing of electric power from PRC and building of electric generating facilities in PRC for electricity supply in Hong Kong.

On 4th January, 2006, China Southern Power Grid Co., Ltd. ("CSG"), an independent party concluded a framework shareholders' agreement to participate in the JV company. CPI, CSG and the Company has taken up 50%, 35% and 15% of the equity interest in JV Company.

Further to the framework shareholders' agreement, CPI, CSG and the Company entered into a further shareholders' agreement on 8th February, 2006 (the "Shareholders' Agreement").

Under the Shareholders' Agreement, the authorised share capital of the JV Company is HK$1,000,000,000 and the issued share capital of the JV Company will initially be HK$20,000,000, being 20,000,000 ordinary shares of HK$1 each, which was commercially agreed between CPI, CSG and the Company. CPI, CSG and the Company will take up 10,000,000 shares, 7,000,000 shares and 3,000,000 shares respectively, representing 50%, 35% and 15% of the equity interest in JV Company, respectively. The investment amount of the JV Company will be paid to the JV Company by each shareholder by cash within two months from the date of the Shareholders' Agreement.

(ii) A subscription agreement was entered into by a subsidiary of the Company, Coastal Power, Ali Khali Athbi Al-Sabah and LIM Fund on 24th March, 2006. LIM Fund will subscribe for the US dollar denominated Convertible Bonds (the "Bonds") to be issued at par by Coastal Power at the aggregate principal amount of US$4,000,000 due March 2011. Pursuant to the Subscription Agreement, the Bonds will bear a coupon interest of 6% per annum with a maturity value of 133.8% at principal amount. Assuming full conversion of the Bonds at the initial Conversion Price of US$36, the Bonds will be convertible into 10% issued shares of Coastal Power.

30. SUBSIDIARIES

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	Attributable equity interest held by the Company Indirectly	Principal activities
Network Engineering Limited	Hong Kong	Ordinary HK$1,000,000	100%	–	Provision of network infrastructure services
VCTG Advertising Services Limited	Hong Kong	Ordinary HK$2	100%	–	Inactive
VCTG Technology Limited	Hong Kong	Ordinary HK$2	100%	–	Provision of digital solution 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
Vertex Media Ltd.	British Virgin Islands	Ordinary US$19,860	100%	–	Investment holding
VCTG Amonic Solutions (Macau) Limited	Macau	Ordinary MOP$50,000	–	100%	Provision of digital solution 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$2,050,000	–	72%	Publication of magazine
Vertex TRC Publishing Company Limited	Hong Kong	Ordinary HK$2	–	100%	Publication of magazine
China Sports Enterprises Limited	Hong Kong	Ordinary HK$2	–	100%	Publication of magazine

30. SUBSIDIARIES (Continued)

Name	Place/country of incorporation or registration	Issued and fully paid/ registered share capital	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Principal activities
Vertex (Gulf) Enterprises Holdings Limited	British Virgin Islands	Ordinary US$160,000	100%	–	Investment holding
Coastal Power Company Limited	Hong Kong	Ordinary HK$1,000,000	80%	–	Investment holding
China Hong Kong Power Development Company Limited	Hong Kong	Ordinary HK$2	100%	–	Inactive
Star Media Investments Limited	British Virgin Islands	Ordinary US$1	100%	–	Investment holding

Note: 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.

None of the subsidiaries had issued any list securities at the end of the year.

RESULTS

	2005 HK$'000	2004 HK$'000 (restated) (Note 2)	2003 HK$'000	2002 HK$'000	2001 HK$'000
Turnover	**12,036**	7,283	6,586	13,366	12,380
(Loss) profit before taxation	**(17,760)**	(29,268)	(36,010)	(22,863)	465
Taxation credit (charge)	**–**	–	–	81	(52)
Net (loss) profit for the year	**(17,760)**	(29,268)	(36,010)	(22,782)	413
Attributable to:					
Equity holders of the parent	**(17,728)**	(28,860)	(35,552)	(22,007)	440
Minority interests	**(32)**	(408)	(458)	(775)	(27)
	(17,760)	(29,268)	(36,010)	(22,782)	413

ASSETS AND LIABILITIES

	2005 HK$'000	2004 HK$'000 (restated) (Note 1, 2)	2003 HK$'000 (Note 1)	2002 HK$'000 (Note 1)
Total assets	**20,742**	18,884	22,405	55,841
Total liabilities	**(37,034)**	(27,761)	(5,274)	(2,782)
	(16,292)	(8,877)	17,131	53,059
Equity attributable to equity holders of the parent	**(16,460)**	(8,877)	16,723	52,275
Minority interests	**168**	–	408	784
	(16,292)	(8,877)	17,131	53,059

Notes:

1. The Company was incorporated in Cayman Islands on 16th November, 2001 and became the holding company of the Group with effect from 18th December, 2001 as a result of the group reorganisation, details of which are set out in the Company's prospectus dated 9th October, 2002. Accordingly, the balance sheets of the Group that have been prepared are those set out above.

2. In the current year, the Group has adopted the new HKFRSs which resulted in changes in accounting policies for the current and prior accounting years. The financial summary for prior year has been adjusted to take up the retrospective effect of HKAS 32 as mentioned in note 3.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the annual general meeting (the "Meeting") of Vertex Communications & Technology Group Limited (the "Company") will be held at Plaza IV, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 30 May, 2006 at 3:30 p.m. for the following purposes:–

1. to receive and consider the audited financial statements of the Company for the year ended 31 December, 2005 together with the reports of the board of directors of the Company (the "Board") and the auditors of the Company;

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

3. to re-appoint the auditors of the Company and authorise the Board to fix their remuneration;

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

   "**THAT**:

   (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertibles into shares of the Company) which might require the exercise of such power be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including but not limited to warrants, bonds and debentures convertibles into shares of the Company) which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted or issued (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under the share option scheme of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue to any officers and/or other participants of such scheme or arrangement of shares or rights to acquire shares of the Company; or (iii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time; or (iv) an issue of shares in the Company upon the exercise of subscription or conversion rights attaching to any warrants which may be issued by the Company from time to time or any existing securities of the Company which carry rights to subscribe for or are convertible into shares of the Company, shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue at the date of passing of this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

   (d) for the purpose of this resolution,

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

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

(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 ("SFC") and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the SFC, 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 convertibles into shares of the Company) which might require the exercise of such power pursuant to resolution no. 4 above be and is hereby extended by the addition thereto of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 5 above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the issued share capital of the Company at the date of the passing of the said resolution."

By Order of the Board
Vertex Communications & Technology Group Limited
MAK Tak Ping
Company Secretary

Hong Kong, 31 March, 2006

Principal place of business in Hong Kong:
Units 3103-5, 31st Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

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

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. A form of proxy in respect of the annual general meeting is enclosed herewith. Whether or not you intend to attend the annual general meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon.

3. 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 Units 3103-5, 31st Floor, West 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.

4. 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.

5. Where there are joint registered holders of any shares of the Company ("Shares"), any one of such holders may vote at the annual general meeting, either personally or by proxy, in respect of such Shares as if he were solely entitled thereto, but if more than one of such joint holders be present at the annual general meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any Share stands shall for this purpose be deemed joint holders thereof.