



Vertex Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8228)

2006

Interim Report

**For Identification Purpose 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.

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The report, for which the directors of Vertex 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.

FINANCIAL RESULTS

The board of directors (the "Board") of Vertex Group Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three and six months ended 30th June 2006, together with the comparative figures for the corresponding period in 2005 as follows:

Consolidated Income Statement

	Notes	Three months ended		Six months ended	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Turnover	(2)	3,636	3,519	5,746	5,201
Other operating income		486	30	513	61
Staff costs		(4,284)	(3,291)	(7,837)	(6,250)
Subcontracting costs		(274)	(482)	(453)	(611)
Depreciation		(229)	(128)	(460)	(338)
Royalty and production costs		(3,726)	(3,718)	(7,412)	(6,377)
Other operating expenses		(1,822)	(2,867)	(5,374)	(4,950)
Gain on partial disposal of a subsidiary		–	19,300	–	19,300
Finance cost		(791)	(78)	(1,015)	(156)
(Loss)/Profit before taxation	(4)	(7,004)	12,285	(16,292)	5,880
Taxation	(5)	–	–	9	–
(Loss)/Profit for the period		(7,004)	12,285	(16,283)	5,880
Attributable to :					
Equity holders of the Company		(7,004)	12,311	(16,115)	5,906
Minority Interest		–	(26)	(168)	(26)
		(7,004)	12,285	(16,283)	5,880
(Loss)/Earnings per share	(6)				
– Basic		HK\$(1.28) cents	HK\$2.46 cents	HK\$(2.95) cents	HK\$1.18 cents
– Diluted		HK\$(1.28) cents	HK\$2.33 cents	HK\$(2.95) cents	HK\$1.12 cents

Consolidated Balance Sheet

	Notes	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	8	2,130	2,467
Investment in securities		3,000	–
		5,130	2,467
Current assets			
Trade receivables	9	6,966	6,172
Prepayments, deposits and other receivables		2,125	2,597
Bank balances and cash		58,498	9,506
		67,589	18,275
Current liabilities			
Trade payables	10	3,397	3,401
Other payables and accrued expenses		4,455	6,409
Amounts due to related companies		12,506	13,489
Taxation		–	8
		20,358	23,307
Net current assets (liabilities)		47,231	(5,032)
		52,361	(2,565)
Capital and reserves			
Share capital		6,142	5,303
Reserves		3,452	(21,763)
Equity attributable to equity holders of the parent		9,594	(16,460)
Minority interests		–	168
Total equity		9,594	(16,292)
Non-current liabilities			
Bonds, secured	11	42,767	13,727
		42,767	13,727
		52,361	(2,565)

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June 2006

	Six months ended 30th June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Net cash outflow from operating activities	(18,371)	(13,179)
Net cash outflow in investing activities	(2,697)	(659)
Net cash inflow from financing activities	70,060	27,804
Increase in cash and cash equivalents	48,992	13,966
Cash and cash equivalents at beginning of period	9,506	10,225
Cash and cash equivalents at end of period	58,498	24,191

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June 2006

	Attributable to equity holders of the parent									
	Share	Share	Special	Equity	Trans-	Share	Accumu-	Minority		
	capital	premium	reserve	reserve	lation	options	lated	Total	interest	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January, 2005										
as restated	4,954	67,040	1,000	2,871	-	-	(84,742)	(8,877)	-	(8,877)
Exercise of share options	179	941	-	-	-	-	-	1,120	-	1,120
Exercise of warrant	160	8,550	-	(1,121)	-	-	-	7,589	-	7,589
Net profit for the period	-	-	-	-	-	-	5,906	5,906	-	5,906
At 30th June 2005	5,293	76,531	1,000	1,750	-	-	(78,836)	5,738	-	5,738
At 1st January 2006	5,303	77,828	1,000	1,750	(71)	200	(102,470)	(16,460)	168	(16,292)
Shares issued at premium	836	39,705	-	-	-	-	-	40,541	-	40,541
Share issue expenses	-	(1,148)	-	-	-	-	-	(1,148)	-	(1,148)
Exercise of share options	3	34	-	-	-	-	-	37	-	37
Recognition of share based payment	-	-	-	-	-	188	-	188	-	188
Recognition of equity component of convertible bonds (note 11)	-	-	-	2,551	-	-	-	2,551	-	2,551
Net loss for the period	-	-	-	-	-	-	(16,115)	(16,115)	(168)	(16,283)
At 30th June 2006	6,142	116,419	1,000	4,301	(71)	388	(118,585)	9,594	-	9,594

The equity reserve represents the equity component of financial instruments.

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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 unaudited financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Chapter 18 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.

In 2004, HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The Group has considered those new HKFRSs but does not expect that the issuance of those new HKFRSs will have a material effect on how the results of operations and financial position of the Group are prepared and presented.

The unaudited consolidated results for the six months ended 30th June 2006 have not been audited by the Company's auditors, but have been reviewed by the audit committee of the Company.

The accounting policies and basis of preparation adopted for the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December 2005.

2. TURNOVER

The Company is an investment holding company. The Group is engaged in the provision of network infrastructure services, digital solution services and publication of print media.

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

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into three operating segments, namely network infrastructure services, digital solution services and publication of print media. 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

Segment information about these businesses is presented below.

Income statement for the six months ended 30th June 2006

	Network infrastructure services	Digital solution services	Print media	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER	333	–	4,517	4,850
RESULTS				
Segment results	(136)	(327)	(8,378)	(8,841)
Other operating income				1,409
Unallocated corporate expenses				(7,845)
Finance costs				(1,015)
Loss before taxation				(16,292)
Taxation				9
Loss for the period				(16,283)

Balance sheet as at 30th June 2006

	Network infrastructure services	Digital solution services	Print media	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS				
Segment assets	94	431	8,158	8,683
Unallocated corporate assets				61,036
Consolidated total assets				69,719
LIABILITIES				
Segment liabilities	(8)	(142)	(6,647)	(6,797)
Unallocated corporate liabilities				(56,328)
Consolidated total liabilities				(63,125)

Other information for the six months 30th June 2006

	Network infrastructure services	Digital solution services	Print media	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to property, plant and equipment	-	-	109	14	123
Depreciation	-	-	56	404	460

Income statement for the six months ended 30th June 2005

	Network infrastructure services	Digital solution services	Print media	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (restated)
TURNOVER	–	664	4,537	5,201
RESULTS				
Segment results	(65)	(380)	(6,474)	(6,919)
Other operating income				61
Unallocated corporate expenses				(6,906)
Finance costs				(156)
Gain on deemed partial disposal of subsidiaries				19,800
Profit before taxation				5,880
Taxation				–
Profit after taxation and before minority interests				5,880

Balance sheet as at 30th June 2005

	Network infrastructure services	Digital solution services	Print media	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS				
Segment assets	534	295	6,097	6,926
Unallocated corporate assets				26,813
Consolidated total assets				33,739
LIABILITIES				
Segment liabilities	(42)	(630)	(4,832)	(5,504)
Unallocated corporate liabilities				(23,614)
Consolidated total liabilities				(29,118)

Other information for the six months ended 30th June 2005

	Network infrastructure services	Digital solution services	Print media	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Additions to property, plant and equipment	–	–	438	220	658
Depreciation	–	83	62	193	338

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.

4. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation has been arrived at after charging (crediting):

	Three months ended 30th June		Six months ended 30th June	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Operation lease rentals in respect of land and building	497	413	996	885
Staff costs, including directors' Remuneration Retirement benefits scheme contributions	165	65	338	154
Salaries and allowances	3,388	3,226	7,499	6,096
	3,553	3,291	7,837	6,250
Interest income on bank deposits	(27)	(30)	(426)	(34)

5. TAXATION

Hong Kong Profits Tax has not been provided for the six months ended 30th June 2006 (2005: Nil) as the Group did not generate any assessable profits in Hong Kong during these periods. The tax credit incurred during this period was a result of written back of over provision of taxation in prior years.

Pursuant to the Income Tax Law of the PRC for Enterprise with Foreign Investment and Foreign Enterprises, the Company's subsidiary in the PRC is exempted from income tax for its first two profitable years of operations and is entitled to a 50% relief on the income tax of the PRC for the following three years. No provision for the PRC income tax has been provided as the Company's subsidiary in the PRC has no assessable profit in the PRC for the six months ended 30th June 2006 (2005: Nil).

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

No provision for deferred tax has been provided for the Group because there were no significant timing differences at the balance sheet date (2005: Nil).

6. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the six months ended 30th June 2006 was based on the unaudited net loss for the period of approximately HK\$16,115,000 (2005: loss of HK\$5,906,000) and on the weighted average number of 546,369,930 shares (2005: 499,456,260 shares) deemed to be in issue throughout the periods.

The computation of diluted loss per share for the three months and six months ended 30th June 2006 did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option schemes and warrants since their exercises would result in a reduction in net loss per share. The calculation of diluted earnings per share for the three months and six months ended 30th June 2005 is based on the profit attributable to shareholders of approximately HK\$12,311,000 and HK\$5,906,000 respectively and weighted average number of 499,456,260 ordinary shares in issue during that period plus the weighted average number of 28,782,000 ordinary shares assumed to have been issued on the deemed exercise of all share options and warrants outstanding during the period.

7. DIVIDEND

The Board does not resolve the payment of an interim dividend for the six months ended 30th June 2006 (2005: Nil).

8. FIXED ASSETS

The movements of fixed assets of the Group were:

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Net book value, beginning of period/year	2,467	2,213
Additions	123	644
Disposals	-	-
Depreciation	(460)	(157)
Impairment loss recognised	-	(233)
	2,130	2,467

9. TRADE RECEIVABLES

The credit terms offered by the Group to its customers is 60 to 90 days. The aged analysis of trade receivables is stated as follows:

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
0 to 60 days	1,536	1,986
61 to 90 days	822	1,185
91 to 180 days	1,275	2,999
Over 180 days	3,333	2
	6,966	6,172

10. TRADE PAYABLES

The aged analysis of trade payables is stated as follows:

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
0 to 60 days	2,010	1,648
61 to 90 days	315	757
91 to 180 days	930	904
Over 180 days	142	92
	3,397	3,401

11. BONDS, SECURED

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

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 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.

On 24th March 2006, a subsidiary of the Company, Coastal Power Company Limited ("Coastal Power"), issued bonds of US\$4,000,000 to LIM Fund. The bonds, which bear a coupon of 6 per cent per annum, are convertible in whole or in part at any time from 30th March 2006 to 31st March 2011 into new Coastal Power Shares at the conversion price of US\$36 subject to adjustment.

The net proceeds from the issue of the bonds have been split between the liability component and equity component, representing the fair value of the embedded option to convert the liability into equity of the subject company, as follows:

	30th June 2006 HK\$'000 (Unaudited)	31st December 2005 HK\$'000 (Audited)
Liability component at beginning of period/year	13,727	13,188
Liability component of bonds issued during the period	28,649	–
Interest charged	1,020	851
Interest paid	(629)	(312)
Liability component at end of the period/year	42,767	13,727

FINANCIAL REVIEW

For the six months ended 30th June 2006, the Group recorded an increase in revenue of approximately HK\$0.5 million, representing a surge of approximately 10% over the corresponding period in 2005. The increase was mainly attributed to management consultation services provided to energy related business.

Staff cost for the period under review increased as compared to the corresponding period in the previous year at approximately HK\$1.45 million. The increase in staff cost was mainly due to additional headcounts of sales and editorial teams in Beijing and Shanghai as well as additional headcounts for providing management consultation services during the period under review.

For the six months ended 30th June 2006, the royalty and production cost amounted to HK\$7.4 million. The increase in the royalty and production costs was mainly attributed to additional royalty and production cost in relation to the publication of ESPN The Magazine in Hong Kong and the PRC during the period under review.

On 24th March 2006, the Company, Coastal Power Company Limited (a subsidiary of the Company), Mr. Ali Khalifa Athbi Al-Sabah and LIM Asia Arbitrage Fund Inc entered into a Subscription and Investment Agreement for Convertible Bonds of US\$4 million at 6% coupon interest. The proceeds from the subscription will be applied in line with the business development of Coastal Power Company Limited.

On 7th April 2006, the Company successfully placed 83,590,000 of new shares of the Company at HK\$0.485 per share to independent investors. The net proceeds of the placement amounting to HK\$39.4 million will be applied for making investment in the energy field, communication business and working capital of the Group.

HUMAN RESOURCES & REMUNERATION POLICY

The directors of the board (the "Directors") believe that the quality of its employees is the most important factor in sustaining the Group's growth and improving its profitability. The Group's remuneration package is structured with reference to the individual performance, working experience and prevailing salary levels in the market. In addition to basic salaries and mandatory provident fund, staff benefits include medical coverage scheme and share option schemes.

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 retirement of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

MANAGEMENT DISCUSSION AND ANALYSIS

Management will focus on developing the brand name of Newsweek Select which will be the flagship magazine of the Group. We are positive about the potential and growth of the advertising sales as the momentum of the economy in the PRC remains strong in the coming years. We expect more and more advertisers with renowned brand names will become eager to establish a strong foothold in the prosperous PRC market through advertising and promotion. We will continue to strengthen the prominent brand name of Newsweek Select by organizing more notable events similar to CFO Forum organized last year in Shanghai with Hong Kong Trade Development Council.

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 the 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 9th October 2002 (the "Prospectus").

Pre-IPO Share Option Scheme

As at 30th June 2006, 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 Share Option Scheme as at 30th June 2006 are set out as follows:

Category of participants	Exercise price per share HK\$	Number of share options			Outstanding as at 30th June 2006
		As at 1st January 2006	Exercised during the period	Lapsed during the period	
Directors	0.12	4,000	–	–	4,000
Advisors and consultants	0.45	1,334,000	–	–	1,334,000
Employees	0.12	4,000	–	–	4,000
	0.21	8,000	–	–	8,000
Total		1,350,000	–	–	1,350,000

Post-IPO Share Option Scheme

As at 30th June 2006, the share options to subscribe for an aggregate of 2,125,000 shares of the Company granted pursuant to the Post-IPO Share Option Scheme were outstanding. The details of the Post-IPO Share Option Scheme as at 30th June 2006 are set out as follows:

Category of participant	Exercise price per share (HK\$)	Date of grant	Number of share options				Outstanding as at 30th June 2006
			As at 1st January 2006	Granted during the period	Exercised during the period ⁽ⁱ⁾	Lapsed during the period	
Employee	0.152	11th October 2004	1,375,000	-	250,000	-	1,125,000
	0.59	16th August 2005	1,000,000	-	-	-	1,000,000
	0.542	6th September 2005	5,000,000	-	-	5,000,000	-
			<u>7,375,000</u>	<u>-</u>	<u>250,000</u>	<u>5,000,000</u>	<u>2,125,000</u>

Note:

- (i) The closing prices of the shares of the Company immediately before the dates on which the share options exercised were HK\$0.34 and HK\$0.52.

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

As at 30th June 2006, 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

Directors	Number of shares of the Company			Percentage held
	Personal Interest	Corporate Interest	Total	
Poon Kwok Lim, Steven	8,330,000 ⁽¹⁾	267,421,528 ⁽²⁾	275,571,528	44.90%
Poon Shu Yan, Joseph	8,000,000 ⁽³⁾	–	8,000,000	1.30%
Mok Hay Hoi	430,000	–	430,000	0.07%
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 1.36% 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 43.54% of the issued share capital of the Company, through (i) Amazing Nova Corporation owned 167,886,666 shares of the Company representing approximately 27.34% of the issued share capital of the Company; (ii) Matrix Worldwide Corporation owned 61,606,666 shares of the Company representing approximately 10.03% of the issued share capital of the Company; (iii) Forever Triumph Limited owned 13,208,196 shares of the Company representing approximately 2.15% of the issued share capital of the Company; and (iv) Bright World Enterprise Limited owned 24,720,000 shares of the Company representing approximately 4.02% 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 Worldwide 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.

3. Mr. Poon Shu Yan, Joseph was beneficially owned 8,000,000 shares of the Company representing approximately 1.30% 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 2006	Exercised during the period	As at 30th June 2006
Poon Kwok Lim, Steven	24th July 2002	0.12	17th October 2003 to 23rd July 2012	4,000	–	4,000
Mok Hay Hai	24th July 2002	0.21	17th October 2003 to 23rd July 2012	4,000	–	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 period	As at 1st January 2006	Exercised during the period	As at 30th June 2006
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 30th June 2006, any interests or short positions in any shares, underlying shares or debentures of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including 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.

Save as disclosed above, at no time during the period 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 30th June 2006, 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	1.36%
	2,3,4,5	Interest of controlled corporation	267,421,528	43.54%
Poon Wong Wai Ping	1	Interest of spouse	8,330,000	1.36%
	2,3,4,5	Interest of controlled corporation	267,421,528	43.54%
Amazing Nova Corporation	2	Beneficial owner	167,886,666	27.34%
Matrix Worldwide Corporation	3	Beneficial owner	61,606,666	10.03%

Name of shareholders	Note	Capacity	No. of shares of the Company held	Approximate percentage of shareholding
Forever Triumph Limited	4	Beneficial owner	13,208,196	2.15%
Bright World Enterprise Limited	5	Beneficial owner	24,720,000	4.02%
Deutsche Bank Aktiengesellschaft		Beneficial owner	55,660,000	9.06%

Notes:

1. Mr. Poon Kwok Lim, Steven was beneficially owned 8,330,000 shares of the Company representing approximately 1.36% 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 Kowk 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.
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

Warrantholder	Number of warrants			Number of shares of the Company issued since the date of grant	Percentage held
	Granted on 27th February 2004	Exercised since the date of grant	As at 30th June 2006		
Lim Asia Arbitrage Fund Inc	41,010,000	16,010,000	25,000,000	16,010,000	2.61% ^(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 30th June 2006.

Save as disclosed above, as at 30th June 2006, 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS

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 the directors of the Company, 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 six months ended 30th June 2006.

CORPORATE GOVERNANCE

The Board considers that the Company has complied with the Code of Corporate Governance Practice and rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 with effective from the accounting periods from 1st January 2005. The Company has prepared a corporate governance report in accordance with Rule 18.44(2) of the GEM Listing Rules attached to the 2005 annual report of the Company.

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.

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

During the six months ended 30th June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 30th March 2005 with written terms of reference in compliance with the Code on Corporate Governance Practices set out in the GEM Listing Rules. The primary duties of the remuneration committee are to review and make recommendation for the remuneration policy of the directors and senior management. The remuneration committee comprises three independent non-executive directors, namely, Mr. Yeung Pak Sing, Mr. Tam Tak Wah and Mr. Tsui Yiu Wa, Alec.

AUDIT COMMITTEE

As required by rules 5.28 to 5.33 of the GEM Listing Rules, the Company established an audit committee on 22nd 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. Tsui Yiu Wa, Alec, Mr. Yeung Pak Sing and Mr. Tam Tak Wah. Mr. Tam is the chairman of the audit committee.

The Group's unaudited results for the six months ended 30th June 2006 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with applicable accounting standards and requirements and that adequate disclosures have been made.

As at the date of this report, the Directors are as follows:

Executive directors:

Mr. Poon Kwok Lim, Steven

Mr. Poon Shu Yan, Joseph

Mr. Mok Hay Hoi

Independent non-executive directors:

Mr. Tsui Yiu Wa, Alec

Mr. Yeung Pak Sing

Mr. Tam Tak Wah

Hong Kong, 9th August 2006

By Order of the Board
Vertex Group Limited
Poon Kwok Lim, Steven
Chairman