

Wafer Systems Limited

Interim Report 2002



Wafer Systems Limited



WAFER SYSTEMS

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 on GEM.

The principal means of information dissemination on 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 at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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

TO OUR SHAREHOLDERS

The Board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2002 (the "Review Period") together with the comparative unaudited figures for the corresponding periods in 2001.

On 17th May, 2002, the shares of the Company were successfully listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited ("SEHK"), representing a significant development for the Company. The Company offered approximately 56 million new shares by way of a placing to the institutional investors and raised gross proceeds of approximately HK\$30.8 million. Since the 3rd quarter of last year, in order to capture the business opportunities created by the PRC's accession to the WTO, the Group has expanded its operations and employed more staff to strengthen its market presence in Mainland China.

Due to the seasonal nature of the information technology industry, the Company's turnover and net profit for the 1st half of the year are relatively low. In 2001, approximately 10% of total net profit was generated during the 1st half of the year, whilst approximately 90% of total net profit was generated during the 2nd half of the year. During the six months ended 30th June, 2002, the Group has recorded a loss from operations which was mainly because of the seasonal impact.

The Group has scaled-up its operations in Mainland China since the 3rd quarter of last year. As a result, the Group recorded significant turnover growth as compared to both the 1st half and 2nd half of last year. Accordingly, the Group expects to achieve a significant improvement in performance during the 2nd half of this year due to the high seasonal impact and the scale-up of operations in Mainland China.

BUSINESS OVERVIEW AND REVIEW

Financial Review

During the Review Period, significant resources were devoted to the listing process. In the 2nd quarter of 2002, the Group focused on developing further its business. The turnover of the Group for the three months and six months ended 30th June, 2002 increased by approximately 48% and approximately 44% to approximately HK\$49.7 million and approximately HK\$73.4 million respectively as compared to the corresponding period in 2001. The growth in turnover during the Review Period was mainly attributable to the approximately 62% increase in turnover in Mainland China as compared to the same period in 2001 as result of the significant growth in the PRC IP-based infrastructure market. Gross profit (turnover less cost of materials and equipment) for the three months and six months ended 30th June, 2002 increased by approximately 37% and approximately 45% respectively as compared with the same period in 2001. Approximately 83% of the Group's gross profit was generated from its Network Infrastructure businesses, whilst the rest came from Professional Services and Network Software businesses.

During the Review Period, in order to capture more business opportunities following the PRC's accession to the WTO, the Group has employed more staff and purchased additional equipment, resulting in increases of 80%, 50% and 48% respectively in employment costs, depreciation and other operating expenses including rental, administrative and selling expenses as compared with the six months ended 30th June, 2001. The increase in expenses resulted from the start of full operations of the Group's subsidiaries in Mainland China during the 2nd half of 2001. Due to the industry's seasonal nature, the Group reported a loss attributable to shareholders of approximately HK\$1 million and approximately HK\$4.7 million for the three months and six months ended 30th June, 2002 respectively. In 2001, approximately 90% of the total net profit was contributed during the 2nd half of the year. In the 2nd half of 2002, the Group expects to achieve a significant improvement in performance as a result of the scaling-up of its operations in Mainland China and the high seasonal impact.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2002 (2001: Nil).

Business Review

During the past six months, the Group has made encouraging progress in its three main businesses. The turnover generated from Network Infrastructure and Professional Services increased by approximately 41% and approximately 105% respectively, as compared with the 1st half of last year. This was primarily due to the scaled-up operations in Mainland China.

During the Review Period, the Group significantly increased its market share in the network infrastructure industry and continues to maintain its leading market position. By forming strategic alliances with leading technology players such as Check Point, Radvision, Sony and NetTasking, the Group has integrated these companies' state-of-the-art technology into its own network infrastructure solutions, greatly enhancing its R&D capability. As a result of this R&D capability, along with its sophisticated solutions and solid experience in serving multinational corporations ("MNCs"), the Group successfully secured contracts to provide sophisticated infrastructure solutions to New World PCS Limited, Vocational Training Council ("VTC") and Jiuquan Iron and Steel Group ("Jiuquan"). The VTC and Jiuquan projects alone are worth over HK\$1 million and HK\$4 million respectively. These contracts represent a significant step forward for the Group to further its presence in the specific market sectors.

Following the PRC's accession to the WTO, more corporations are moving towards increasing their business competitiveness through the use of information technology causing a rise in demand for improved value-added quality services from both regional MNCs and local domestic enterprises. The Group has already secured its reputation with MNCs. Building on this solid foundation, the Group has correctly positioned itself as a "Quality and Cost Leader" in the industry, for example by beating other strong candidates to be chosen by the Sichuan Provincial Branch of the Industrial and Commercial Bank of China as the provider of round-the-clock professional networking maintenance services. This marks a milestone for the Group in the penetration of the domestic corporations market, providing them with critical services, such as banking and telecommunications.

In relation to its Network Software business, the Group attaches great importance to the upgrading and performance of software functions. The Group has launched version 3.0 of its self-developed NextG IP Billing software, which targets the emerging New Service Providers ("NSP") market. The Group believes that it is an outstanding example of its proprietary software and has been well received by the market.

In view of the growing demand for multimedia solutions, the Group is committed to developing an IP based multimedia collaboration solution, namely the Knowledge Collaboration System ("KCS"). This collaborative solution will enable real time conferencing via data, voice and video transmissions at various locations.

In addition, the Group has placed emphasis on developing new software products, such as the Wafer Management Services Support Systems ("WMSS"). This self-developed all-in-one Network Management Software allows users to monitor and manage the performance of their networks and provides an integrated solution for network management. The Group has already finished the trial version and intends to launch the software in the 2nd half of 2002.

During the Review Period, Mainland China remained the major market for the Group, representing approximately 88% of its total turnover. The turnover generated from the Mainland China market surged by approximately 62% from approximately HK\$40 million for the 1st half of last year, to approximately HK\$64.8 million for the 1st half of this year. In order to increase its strong foothold in the Mainland China market, the Group has established its market presence in Changsha and Suzhou. In addition, the Group is negotiating with a large IT company in Japan to establish distribution networks for its self-developed software there. This not only provides network software and professional services to clients, but will also help the Group to build its reputation and improve services.

Using this strong sales channel, its professionalism, its network solutions and its capability in network infrastructure, the Group is able to provide new and highly competitive products to its customers.

PROSPECT

After the successful listing of its shares on the GEM board, the Group is focusing on the expansion of its businesses. The Group plans to capitalize on the continuing growth momentum of the PRC's IT market and the Chinese government's aggressive promotion of the adoption of information technologies. The Group will build on its solid foundation in network infrastructure to further its professional services and network software businesses. It is expected that revenue generated from these businesses will continue to increase.

Dedicated to constantly upgrading its Professional Services, the Group is currently developing its remote network management outsourcing service, whereby it proactively manages customers' existing networks from a round-the-clock network monitoring centre, manned by specialists. The Group expects the centre to begin operations in the 2nd half of 2002, adding to the Group's profits.

In addition to the Professional Services, the Network Software business will be an additional source of future growth. The Group is currently developing WMSS and has already finished the trial version. Once it is ready, the Group will incorporate it into its network infrastructure solutions and launch it on the market.

In July 2002, the Group launched its NextG IP Billing Software version 3.0, providing telecommunications operators with more effective, accurate and flexible billing solutions. Based on this version, the Group will further develop software to support Cisco Systems' Softswitch, which provides call-control intelligence, allowing the establishment, maintenance, routing, and termination of voice calls. It also serves as an interface to enhance service and application platforms. These innovations are expected to lead to business opportunities arising from the rapidly growing telecommunications industry in the PRC.

In relation to its network infrastructure business, the Group is discussing a strategic alliance with one of the major IT companies in order to provide high end security infrastructures and solutions. This alliance is expected to help the Group to expand its share of the network security solutions market, further strengthening its position as a leader in the industry. With the capability of providing tailor-made and cost effective solutions and services for clients, the Group will continue to identify new markets with high growth potential; for example, educational institutes and telecommunications companies. The Group continues to develop new products to meet the needs of these markets.

The Group is also seeking to establish a solid market presence in Nanjing, Singapore and Taiwan, targeting MNCs where the Groups' core businesses already have a significant market niche.

The Group believes that the PRC's accession to the WTO has created additional opportunities for its business. More foreign companies are expected to set up businesses in China, thus generating greater demand for quality infrastructure solutions, professional services as well as proprietary solutions. With its three synergistic businesses, the Group is well positioned to capture many of these opportunities and to become one of the premier providers of network infrastructure solutions and services in Asia.

Comparison of Business Objectives with Actual Business Progress

Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
Business Development Establish sales and marketing presence in Changsha, the PRC.	Established market presence in Changsha & Suzhou with full-time staff located.
Product Development and Service Launches Launch phase 1 of IP Multimedia Collaboration Solutions with additional features of video streaming and interactive video conferencing.	Launched KCS, an IP Multimedia Collaboration Solution, in June 2002. This will be incorporated into the Group's multimedia solutions.

Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
<p>Further increase its market share by promoting Infrastructure Solutions and Network Security Solutions, as well as Multimedia Solutions by adopting self-developed software and integrating with video conferencing equipment supplied by PictureTel and Polycom.</p>	<p>Launched KCS, an IP multimedia collaboration solution, which will be incorporated into the Group's Multimedia Solutions.</p> <p>Currently developing Wafer Management Services Support System ("WMSS"). When it is ready, the Group will incorporate it into its network infrastructure solutions.</p>
<p>Professional Services Further increase its market share by promoting Customer Services and Expert Services.</p>	<p>The Group continues to promote professional services to its customers.</p>
<p>Network Software Launch version 3.0 of the NextG IP Billing Software.</p>	<p>Launched in July 2002.</p>
<p>Continue the research and development of the NextG IP Billing Software.</p>	<p>Based on V3.0 module, the Group will further develop the software to support Cisco Systems' Softswitch, which provides call-control intelligence for establishing, maintaining, routing, and terminating voice calls and serves as an interface to enhance service and application platforms.</p>
<p>Continue the research and development of phase 1 of the Network Management Software.</p>	<p>The Group has already finished the trial version of its self-developed Network Management Software – WMSS.</p>
<p>Continue the research and development of the OSS/BSS Software.</p>	<p>The Group continues to develop the Wafer NextG OSS/BSS Software for IP based local service.</p>
<p>Sales and Marketing Enter into the agency agreement with agents in Japan to establish distribution networks for NextG IP Billing Software and Network Management Software in Japan.</p>	<p>The Company is in the process of negotiating with a large IT company in Japan to establish distribution networks for its self-developed Software.</p>
<p>Carry out marketing activities to promote the Network Infrastructure Services, version 3.0 of the NextG IP Billing Software and Professional Services.</p>	<p>The Group continues to promote its Network Infrastructure Solutions, Network Software and Professional Services.</p>

Use of Proceeds from IPO

The net proceeds raised from the new issue of shares by way of placing were approximately HK\$19.2 million. As at 30th June, 2002, the Group has utilized approximately HK\$0.6 million, which is in accordance with the Prospectus.

- Approximately HK\$0.5 million was used in research and development
- Approximately HK\$0.1 million was used in sales and marketing

Management Discussion & Analysis

- **Liquidity and Financial Resources**
As at 30th June, 2002, the Group had net current assets of approximately HK\$55.3 million, representing a 65% increase from 31st December, 2001, and which included cash and bank balances of approximately HK\$31.1 million, trust receipts bank loans of approximately HK\$4.5 million and bills discounted bank loans of approximately HK\$5.2 million.

As at 30th June, 2002, the Group had outstanding convertible bonds of approximately HK\$18 million, of which approximately HK\$4 million was due within one year.
- **Capital Structure**
There have been no changes in the capital structure since the Company listed its shares on GEM on 17th May, 2002.
- **Investment**
During the six months ended 30th June, 2002, the Group made no significant investments.
- **Acquisitions and Disposals**
The Group made no material acquisitions or disposals during the six months ended 30th June, 2002.
- **Employees**
As at 30th June, 2002, the Group employed 164 staff. The staff costs, including directors' emoluments, were approximately HK\$9.4 million for the six months ended 30th June, 2002, as compared with approximately HK\$5.2 million for the corresponding period of the preceding financial year. The increment was due to the scaling up of the Group's operations in Mainland China during the 2nd half of 2001. The Group has employed 113 additional staff in order to expand its business.
- **Change in Group Assets**
With the exception of those changes set out in the Prospectus, there have been no significant changes in group assets.
- **Future plans for Investments or Capital Assets and Sources of Funding**
With the exception of those plans set out in the Prospectus, the Group has no plans for significant investments or capital assets.
- **Gearing Ratio**
As at 30th June, 2002, the gearing ratio, total long-term liabilities over total assets, was approximately 12% as compared to approximately 19% as at 31st December, 2001. The improvement was mainly attributable to the net proceeds of approximately HK\$19.2 million raised from the listing and the conversion of convertible notes with a par value of approximately HK\$17.4 million in May 2002.

FINANCIAL INFORMATION
 Condensed Consolidated Income Statement

	Notes	(Unaudited) For the three months ended 30th June,		(Unaudited) For the six months ended 30th June,	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	49,716	33,523	73,376	50,792
Management fees from/ (to) the Agents, net		-	2,831	-	(10)
Material and equipment		(39,211)	(25,841)	(55,186)	(38,275)
Employment costs		(4,479)	(2,985)	(9,394)	(5,226)
Depreciation of property, plant and equipment		(639)	(443)	(1,309)	(873)
Amortization of software development costs		(303)	(125)	(527)	(251)
Amortization of other non-current assets		(419)	-	(837)	-
Other operating expenses		(4,463)	(3,423)	(8,718)	(5,888)
Profit/(Loss) from operations		202	3,537	(2,595)	269
Other income		-	1,552	-	1,552
Interest income		81	169	159	485
Finance costs		(725)	(677)	(1,599)	(1,454)
(Loss)/Profit before taxation		(442)	4,581	(4,035)	852
Taxation	3	(572)	(191)	(656)	(191)
(Loss)/Profit attributable to shareholders	2	(1,014)	4,390	(4,691)	661
Dividends		-	-	-	-
(Loss)/Earnings per share					
- Basic (cents)	4	(0.44)	2.83	(2.30)	0.43
- Diluted (cents)	4	N/A	1.88	N/A	0.35

Condensed Consolidated Balance Sheet

	Notes	(Unaudited) As at 30th June, 2002 HK\$'000	(Audited) As at 31st December, 2001 HK\$'000
NON-CURRENT ASSETS			
Long-term investment		400	400
Property, plant and equipment	5	4,085	4,460
Software development costs		4,548	3,319
Other non-current assets	6	4,183	-
Total non-current assets		13,216	8,179
CURRENT ASSETS			
Inventories		5,667	5,560
Bills receivable		4,407	-
Trade receivables	7	55,860	37,740
Due from the Agents		19	8,481
Prepayments, deposits and other receivables		6,850	11,496
Pledged bank deposits		18,377	21,438
Cash and other bank deposits		12,678	10,386
Total current assets		103,858	95,101
CURRENT LIABILITIES			
Short-term bank borrowings		(9,738)	(18,615)
Convertible bond, current portion		(3,959)	-
Convertible note, current portion		-	(15,500)
Trade and bills payables	8	(25,844)	(17,091)
Accruals and other payables		(3,281)	(5,435)
Receipts in advance and deferred revenue		(2,083)	(2,550)
Taxation payable		(3,607)	(2,349)
Total current liabilities		(48,512)	(61,540)
Net current assets		55,346	33,561
Total assets less current liabilities		68,562	41,740
NON-CURRENT LIABILITIES			
Convertible bond, non-current portion		(14,078)	-
Convertible note, non-current portion		-	(19,375)
Net assets		54,484	22,365
Representing:			
SHARE CAPITAL	9	2,823	1,778
SHARE PREMIUM	10	55,824	20,059
STATUTORY RESERVES	10	1,087	1,087
ACCUMULATED DEFICIT	10	(5,250)	(559)
Shareholders' equity		54,484	22,365

Condensed Consolidated Cash Flow Statement

	(Unaudited) Six months ended 30th June, 2002 HK\$'000	(Unaudited) Six months ended 30th June, 2001 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(7,645)	(9,062)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	159	485
Interest paid	(1,000)	(1,454)
	(841)	(969)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,023)	(1,267)
Increase in software development costs	(1,755)	(1,094)
	(2,778)	(2,361)
Net cash outflow before financing	(11,264)	(12,392)
FINANCING ACTIVITIES		
Share issue expenses	-	(928)
Net proceeds from issue of new shares to the public	19,168	-
Proceeds from exercise of warrants	204	-
	19,372	(928)
Increase/(Decrease) in cash and cash equivalents	8,108	(13,320)
CASH AND CASH EQUIVALENTS, beginning of period	13,209	20,487
CASH AND CASH EQUIVALENTS, end of period	21,317	7,167

Cash and cash equivalents represented pledged bank deposits and cash and other bank deposits, net of short-term bank borrowings

**Condensed Consolidated Statement of Changes in Equity
(Unaudited)**

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1st January, 2001	234	3,149	-	(7,479)	(4,096)
Issue of shares	43	19,357	-	-	19,400
Share issuance expenses	-	(928)	-	-	(928)
Profit for the six months ended 30th June, 2001	-	-	-	661	661
As at 30th June, 2001	277	21,578	-	(6,818)	(5,037)
As at 1st January, 2002	1,778	20,059	1,087	(559)	22,365
Issue of new shares to the public	560	30,251	-	-	30,811
Share issuance expenses	-	(11,643)	-	-	(11,643)
Exercise of warrants	131	73	-	-	204
Conversion of convertible note	354	17,084	-	-	17,438
Loss for the six months ended 30th June, 2002	-	-	-	(4,691)	(4,691)
As at 30th June, 2002	2,823	55,824	1,087	(5,250)	54,484

Notes to the Condensed Financial Statements

(1) Basis of presentation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 26th November, 1998. The shares of the Company were listed on GEM on 17th May, 2002.

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

During the Review Period, the Group acquired approximately HK\$5,200,000 non-current assets and adopted the following accounting policy:

Other non-current assets

Other non-current assets are stated at cost less accumulated amortization and accumulation impairment losses. Amortization is provided on a straight-line method over its estimated useful life of three years.

Subject to the above, the principal accounting policies and basis of preparation adopted for the preparation of these condensed financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31st December, 2001.

The condensed financial statements are unaudited but have been reviewed by the Audit Committee.

(2) Turnover and (loss)/profit attributable to shareholders

a. Turnover and revenue

An analysis of the Group's turnover and revenue recognized for the three months and the six months ended 30th June, 2002 together with the comparative figures for the corresponding period in 2001 are as follows:

	For the three months ended 30th June,		For the six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Network infrastructure	47,147	32,042	67,351	47,924
Professional services	2,429	1,481	5,885	2,868
Network software	140	—	140	—
Total turnover	49,716	33,523	73,376	50,792
Other income	—	1,552	—	1,552
Interest income	81	169	159	485
Total revenue	49,797	35,244	73,535	52,829

b. Business segment

An analysis of the Group's turnover and (loss)/profit attributable to shareholders by business segment is as follows:

	Turnover For the six months ended 30th June,		Profit/(loss) attributable to shareholders For the six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Network infrastructure	67,351	47,924	(3,469)	1,005
Professional services	5,885	2,868	(707)	268
Network software	140	—	(515)	(612)
Total	73,376	50,792	(4,691)	661

- c. Geographical segment
An analysis of the Group's turnover and (loss)/profit attributable to shareholders by geographical location is as follows:

	Turnover For the six months ended 30th June,		Profit/(loss) attributable to shareholders For the six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong	8,576	10,824	(2,477)	(2,410)
Mainland China	64,800	39,968	(2,192)	1,539
Singapore	-	-	(22)	1,532
	73,376	50,792	(4,691)	661

(3) **Taxation**

Taxation charges consisted of:

	For the six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Current taxation – Hong Kong profits tax	390	191
Mainland China enterprise income tax	266	-
	656	191

Hong Kong profits tax has been provided at the rate of 16% (2001:16%) on the estimated assessable profits arising in Hong Kong during the periods under review.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions

(4) **(Loss)/Earnings per share**

The calculation of basic (loss)/earnings per share for the three months and the six months ended 30th June, 2002 is based on the unaudited (loss)/profit attributable to shareholders of approximately HK\$(1,014,000) and approximately HK\$(4,691,000) (three months and six months ended 30th June, 2001: approximately HK\$4,390,000 and approximately HK\$661,000 respectively) and on the weighted average number of approximately 230,603,000 shares and approximately 204,342,000 shares respectively (2001: approximately 154,884,000 and approximately 152,315,000 respectively) in issue during the period.

The diluted loss per share has not been presented for the three months and six months ended 30th June, 2002 since the effect is anti-dilutive.

The calculation of the diluted earnings per share for the three months and six months ended 30th June, 2001 is based on the net profit attributable to shareholders of approximately HK\$4,903,000 and approximately HK\$661,000 and on the weighted average number of approximately 261,360,000 shares and approximately 190,533,000 shares respectively.

(5) **Property, plant and equipment**

Movements in property, plant and equipment were:

	Leasehold improvements, furniture and office equipment HK\$'000	Computer equipment HK\$'000	Tools HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
Cost					
As at 1st January, 2002	1,009	5,211	3,063	272	9,555
Additions	293	351	385	-	1,029
Disposals	-	-	(94)	-	(94)
As at 30th June, 2002	<u>1,302</u>	<u>5,562</u>	<u>3,354</u>	<u>272</u>	<u>10,490</u>
Accumulated depreciation					
As at 1st January, 2002	495	2,570	1,914	116	5,095
Additions	182	743	380	28	1,333
Disposals	-	-	(23)	-	(23)
As at 30th June, 2002	<u>677</u>	<u>3,313</u>	<u>2,271</u>	<u>144</u>	<u>6,405</u>
Net book value					
As at 30th June, 2002	<u>625</u>	<u>2,249</u>	<u>1,083</u>	<u>128</u>	<u>4,085</u>
As at 31st December, 2001	<u>514</u>	<u>2,641</u>	<u>1,149</u>	<u>156</u>	<u>4,460</u>

 (6) **Other non-current assets**

Movements in other non-current assets were:

	Right to use certain property, plant and equipment and prepaid maintenance charges HK\$'000
Cost	
As at 1st January, 2002	-
Additions	<u>5,020</u>
As at 30th June, 2002	<u>5,020</u>
Accumulated amortization	
As at 1st January, 2002	-
Additions	<u>837</u>
As at 30th June, 2002	<u>837</u>
Net book value	
As at 30th June, 2002	<u>4,183</u>
As at 31st December, 2001	<u>-</u>

In January 2002, the Group acquired a right to use certain non-current assets including property, plant and equipment and prepaid maintenance charges from Beijing Wafer Electronic Co., Ltd. and Guangzhou Wafer Technology Trading Co., Ltd. (the Group's former PRC agents) with consideration of approximately HK\$3,520,000 and HK\$1,500,000 respectively. The Group is entitled to use such non-current assets for four years from January 2002 to December 2005. In accordance with the depreciation policy of the Group, the right to use the non-current assets is amortized on a straight-line basis over a period of three years.

(7) Trade receivables

Aging analysis of trade receivable is as follows:

	As at 30th June, 2002 HK\$'000	As at 31st December, 2001 HK\$'000
0 to 30 days	27,739	12,546
31 to 60 days	9,260	6,132
61 to 90 days	3,572	8,621
91 to 180 days	9,193	2,801
181 to 365 days	8,110	8,045
Over 365 days	507	533
	<u>58,381</u>	<u>38,678</u>
Less: Provision for bad and doubtful debts	(2,521)	(938)
	<u>55,860</u>	<u>37,740</u>

The Group generally grants a credit period to its customers range from 7 to 30 days

(8) Trade and bills payables

Aging analysis of trade and bills payables is as follows:

	As at 30th June, 2002 HK\$'000	As at 31st December, 2001 HK\$'000
0 to 30 days	22,195	9,238
31 to 90 days	3,385	7,593
91 to 180 days	230	130
181 to 365 days	34	117
Over 365 days	-	13
	<u>25,844</u>	<u>17,091</u>

(9) Share capital

Movements of share capital were:

	As at 30th June, 2002	As at 31st December, 2001		
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorized				
– ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>5,000</u>	<u>500,000</u>	<u>5,000</u>
Issued and fully paid				
– ordinary shares of HK\$0.01 each				
Beginning of period	177,778	1,778	150,000	234
Issue of shares			27,778	43
Redenomination, subdivision, consolidation, and bonus issue	12	-	-	1,501
Issue of new shares to the public	56,020	560		
Exercise of warrants	13,045	131		
Conversion of convertible note	35,413	354		
	<u>282,268</u>	<u>2,823</u>	<u>177,778</u>	<u>1,778</u>
End of period				

(10) Reserves

	Share premium HK\$'000	Statutory reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1st January, 2001	3,149		(7,479)	(4,330)
Premium on issue of ordinary shares	19,357			19,357
Share issuance expenses	(928)			(928)
Profit for the six months ended 30th June, 2001			661	661
As at 30th June, 2001	<u>21,578</u>		<u>(6,818)</u>	<u>14,760</u>
As at 1st January, 2002	20,059	1,087	(559)	20,587
Premium on new issue of shares to the public	30,251			30,251
Share issuance expenses	(11,643)			(11,643)
Premium on exercise of warrants	73			73
Premium on conversion of convertible note	17,084			17,084
Loss for the six months ended 30th June, 2002			(4,691)	(4,691)
As at 30th June, 2002	<u>55,824</u>	<u>1,087</u>	<u>(5,250)</u>	<u>51,661</u>

(11) Related Parties Transactions

Significant transactions with related parties are summarised below:

	For the six months ended 30th June,	
	2002 HK\$'000	2001 HK\$'000
Beijing Wafer Electronic Co., Ltd (<i>note a</i>)		
– Sale of trade merchandise	–	1,092
– Management fees charged by the related party	–	354
– Purchase of right to use certain property, plant and equipment and prepaid maintenance charges	3,520	–
Net Tasking Inc. (<i>note b</i>)		
– Gain realised upon termination of the Group's entitlement to certain warrants rights	–	1,552
New Eracom Technology Ltd (<i>note c</i>)		
– Provision of network professional services	375	–

Notes:

- Beijing Wafer Electronic Co., Ltd is ultimately owned by Mr. CHAN Sek Keung, Ringo, a director of the Company
- Net Tasking Inc. was beneficially owned by, among others, Mr. LIN, Samuel Jr., who was a director of the Company from 14th December 1998 to 30th May, 2001
- New Eracom Technology Ltd is 16.7% owned by the Group. Mr. CHAN Sek Keung, Ringo, a director of the Company, is also a director of New Eracom Technology Ltd.

(12) Commitments and Contingent Liabilities

As at 30th June, 2002, the Group had operating lease commitments of approximately HK\$4,778,000 (as at 31st December, 2001: approximately HK\$5,351,000), out of which approximately HK\$1,582,000 was payable within 1 year (as at 31st December, 2001: approximately HK\$2,587,000) and had outstanding contracted capital commitments of approximately HK\$769,000 in respect of capital injection into the subsidiary in Xi'an.

Save as disclosed above, the Group had no material contingent liabilities.

(13) Banking Facilities and Pledge of Assets

As at 30th June, 2002, the Group had banking facilities of approximately HK\$37,190,000 (as at 31st December, 2001: HK\$34,338,000), out of which approximately HK\$20,012,000 (as at 31st December, 2001: HK\$25,516,000) were utilized. These facilities were secured by (i) pledged bank deposits of approximately HK\$18,377,000 (as at 31st December, 2001: HK\$21,438,000); (ii) corporate guarantees provided by the Group of approximately HK\$34,190,000 (as at 31st December, 2001: HK\$26,190,000); (iii) personal guarantees provided by Mr. CHAN Sek Keung, Ringo of approximately HK\$24,000,000 (as at 31st December, 2001: HK\$30,190,000) and (iv) the Group's inventories held under trust receipts bank loan arrangements of approximately HK\$209,000 (as at 31st December, 2001: HK\$948,000).

Directors' and Chief Executive's Interests in Share Capital

As at 30th June, 2002, the interests of the Directors, chief executives of the Company and their respective associates in the Company and its associated corporations as recorded in the register maintained under section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") of the Company or which required, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows :

Name of Director	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total
Mr. CHAN Sek Keung, Ringo	-	-	56,400,000 shares (Note)	-	56,400,000 shares (Note)

Note: These shares, representing approximately 19.98% of the issued share capital of the Company, are held by Woodstock Management Ltd., a company wholly-owned by Mr. CHAN Sek Keung, Ringo. Mr. CHAN Sek Keung is deemed (by virtue of the SDI Ordinance) to be interested in these shares.

Save as disclosed above, as at 30th June, 2002, none of the Directors, chief executives of the Company or their respective associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporation as defined in the SDI Ordinance or which, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

Directors' and Chief Executive's Rights to Acquire Shares

Pursuant to the Pre-IPO Share Option Scheme, the Company has granted options to subscribe shares in the Company to certain Directors. Up to the date hereof, no options have been granted by the Company to any Directors under the Post-IPO Share Option Scheme. Details of the options granted to the Directors are as follows :

Name of Director	Number of Options Granted	Number of Options Outstanding as at the date hereof	Subscription price per share	Exercised Period
Mr. CHAN Sek Keung, Ringo (Executive Director)	3,000,000	3,000,000	HK\$0.55	17th November, 2002 to 29th April, 2012
Mr. PANG Hing Chung, Alfred (Independent Non-Executive Director)	750,000	750,000	HK\$0.55	17th November, 2002 to 29th April, 2012

Substantial Shareholders

So far as the Directors are aware, as at 30th June, 2002, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the Company has been notified the following interests, being 10% or more in the Company's issued share capital:

Name of Shareholder	Number of Shares	Shareholding
Woodstock Management Ltd. (note (i))	56,400,000	19.98%
Mr. CHAN Sek Keung, Ringo (note (i))	56,400,000	19.98%
The Applied Research Council (note (ii))	48,460,000	17.17%
North 22 Nominees Ltd. (note (iii))	36,900,000	13.07%
Mr. NG Lai Yick (note (iii))	36,900,000	13.07%
QPL International Holdings Ltd. (note (iv))	27,780,000	9.84%

Notes:

- i. Woodstock Management Ltd. is beneficially wholly-owned by Mr. CHAN Sek Keung, Ringo, a Director of the Company.
- ii. In addition to this shareholding, The Applied Research Council also holds 5 convertible bonds issued by the Company with face value of \$20,048,100 in aggregate. If these convertible bonds were fully converted on their respective maturity dates, The Applied Research Council will hold an additional 38,063,603 shares in the Company.
- iii. North 22 Nominees Ltd. is beneficially wholly-owned by Mr. NG Lai Yick.
- iv. In addition to this shareholding, QPL International Holdings Ltd. holds 7,676,745 Warrants in the Company which are exercisable within 6 months from 17th May, 2003 at the price of \$0.01 per share.

Share Option Schemes

Under the Pre-IPO Option Scheme approved by the shareholders, the Directors of the Company may, at their discretion, offer directors, employees, advisers or business consultants of the Group ("participants") to take up options to subscribe for shares in the Company up to a maximum of 11,933,000 shares. On 30th April, 2002, the Directors made grants totalling 11,913,000 shares, all of which remained outstanding as at 30th June, 2002.

Type of Participants	Number of Options Granted	Number of Options Outstanding	Subscription price per Share	Exercise Period
Directors	3,750,000	3,750,000	HK\$0.55	17th November, 2002 to 29th April, 2012
Adviser	750,000	750,000	HK\$0.55	17th November, 2002 to 29th April, 2012
Employees	7,413,000	7,413,000	HK\$0.55	17th November, 2002 to 29th April, 2012

Connected Party Transactions

Such transactions have been fully disclosed under Note (11) to the Condensed Financial Statements.

Competition and Conflict of Interests

Each of the Directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that, none of them had any business or interest in companies that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group.

Sponsor's Interests

As confirmed by the Company's sponsor, CSC Asia Ltd. (the "Sponsor"), as at 30th June, 2002, neither the Sponsors nor its directors, employees and associates (as referred in Note 3 to rule 6.35 of the GEM Listing Rules) have had any interest in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company, or any members of the Group.

Upon the listing of shares in the Company on GEM, the Sponsor will receive fees under a sponsor's agreement dated 10th May, 2002 between the Company and the Sponsor in connection with services to be rendered by the Sponsor pursuant to rules 6.01 and 17.81 of the GEM Listing Rules.

Audit Committee

The Company established an audit committee (the "Committee") on 29th October, 2001 with written terms of reference in compliance with rules 5.23 to 5.25 of the GEM Listing Rules and with reference to guidance published by the Hong Kong Society of Accountants.

The Committee consists of two Independent Non-executive Directors, namely, Mr. TSOI Tai Wai, David and Mr. PANG Hing Chung, Alfred, and the Executive Director, namely, Mr. CHAN Sek Keung, Ringo. Mr. Tsoi is the Chairman of the Committee. The Audit Committee has reviewed the draft of this Report and has provided advice and comments thereon.

Board Practices and Procedures

The Company has complied with the board practices and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules during the Review Period.

Purchase, Redemption or Sale of Listed Securities of the Company

During the six months ended 30th June, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Wafer Systems Limited
CHAN Sek Keung, Ringo
Chairman and Chief Executive Officer

Hong Kong, 13th August, 2002