



# Wafer Systems Limited

*(incorporated in the Cayman Islands with limited liability)*



**Data**  
**Voice**  
**Visual**  
**VoD**  
**VoIP**  
**IP Intelligent**  
**Web calling centre**

**Annual Report 2002**

## **Characteristics of the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

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

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

**The principal means of information dissemination on GEM is publication on the internet website operated by the 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](http://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.

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# Corporate Information

## BOARD OF DIRECTORS

### **Executive Director**

Mr. Chan Sek Keung, Ringo  
(Chairman & Chief Executive Officer)

### **Non-Executive Directors**

Mr. Alasdair Gordon Nagle  
Ms. Clara Ho  
Mr. Kwan Kit Tong

### **Independent Non-Executive Directors**

Mr. Pang Hing Chung, Alfred  
Mr. Tsoi Tai Wai, David

## COMPANY SECRETARY

Mr. Pang Kin Man, Edmond

## QUALIFIED ACCOUNTANT

Mr. Yau Kin Wa

## COMPLIANCE OFFICER

Mr. Chan Sek Keung, Ringo

## AUDIT COMMITTEE

Mr. Tsoi Tai Wai, David (Chairman)  
Mr. Pang Hing Chung, Alfred  
Mr. Chan Sek Keung, Ringo

## ADVISORS

Mr. Chen Sau Chung, John  
Mr. Samuel Lin Jr.

## AUTHORIZED REPRESENTATIVES

Mr. Chan Sek Keung, Ringo  
Mr. Pang Kin Man, Edmond

## REGISTERED OFFICE

Scotia Centre  
4th Floor, P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 901-7, 9th Floor  
MLC Millennia Plaza  
663 King's Road  
North Point  
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
George Town  
Grand Cayman  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## Corporate Information

### PRINCIPAL BANKERS

The Hongkong & Shanghai Banking Corporation Limited  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

Jian Sing Bank Limited  
1st Floor  
99-105 Des Voeux Road Central  
Hong Kong

Citibank, N.A.  
30th Floor, Tower One, The Gateway  
25 Canton Road  
Tsimshatsui  
Hong Kong

### AUDITORS

Deloitte Touche Tohmatsu  
Certified Public Accountants  
26th Floor, Wing On Centre  
111 Connaught Road Central  
Hong Kong

### LEGAL ADVISORS

Woo, Kwan, Lee & Lo  
27th Floor  
Jardine House  
1 Connaught Place  
Hong Kong

### SPONSORS

CSC Asia Limited  
28th Floor  
COSCO Tower  
Grand Millennium Plaza  
183 Queen's Road Central  
Hong Kong

### WEBSITE ADDRESS

[www.wafersystems.com](http://www.wafersystems.com)

### STOCK CODE

8198

# Chairman's Statement

## TO OUR SHAREHOLDERS

For and on behalf of the board of directors (the "Board") of Wafer Systems Limited (the "Company"), I am pleased to present the first annual report of the Company and its subsidiaries (collectively, "Wafer Systems" or the "Group") for the year ended 31st December, 2002 (the "year under review"), since its listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17th May, 2002.

The Company's successful listing has enabled the Group to improve its equity capitalization and liquidity. Leveraging the proceeds from the listing, Wafer Systems has been able to implement key strategic initiatives in its three main areas of business, namely Network Infrastructure, Professional Services and Network Software. Paving the way to capture market potential in the wake of China's accession to the World Trade Organization ("WTO"), more staff have been employed, additional presences established, and operations scaled-up. The year under review has therefore been a year of investment and an important exercise in the building up of the Group's presence.

2002 was a year in which both low visibility of the telecommunications market in the People's Republic of China ("Mainland China" or "the PRC") and global slow down in IT spending seriously affected the industry. The Group, however, believes this is only a temporary adjustment with signs of recovery already starting to emerge in the fourth quarter. With the Group's strong business foundations as well as the flourishing of Multinational Corporations ("MNCs") and domestic enterprises in Mainland China, there are ample business opportunities ahead for the Group. More importantly, anticipating that the Next Generation Network ("NGN") will become a growing market trend, Wafer Systems is ideally equipped to capture a significant share of this market to generate better returns for its supportive shareholders.

## FINANCIAL PERFORMANCE

For the year ended 31st December 2002, the Group achieved a 21% growth in turnover, rising from approximately HK\$149.6 million in 2001 to approximately HK\$180.3 million in 2002. Mainland China continued to be the Group's major market, accounting for 91% (2001: 84%) of the total turnover.

Anticipating the business opportunities created by the burgeoning number of MNCs and domestic enterprises, which require premium network infrastructure, professional services, as well as network software, Wafer Systems scaled-up operations in the PRC starting from the end of 2001. As a result, overall operating expenses increased by approximately 50% from 2001. However, as the PRC market was undergoing a series of policy and strategy changes initiated by the government and the telecommunication giants, there was a significant restructure within the industry during the year. These measures substantially affected the progress of the projects in the industry during 2002. In view of these changes and the increased operating costs, the Group recorded a loss attributable to shareholders of approximately HK\$5.8 million during the year under review. (2001: profit attributable to shareholders was approximately HK\$8 million). However, these results have shown 11% of improvement over the approximately HK\$6.6 million loss for the nine months ended 30th September 2002.

The Group believes that the scaling-up measures were necessary to position Wafer Systems for healthy growth as the Group expects that once the consolidation of the telecommunications industry is completed, projects currently on hold will gradually be released. This positive effect has begun to be reflected in the fourth quarter results with turnover increasing 67% to approximate HK\$66.9 million as compared to the third quarter of 2002. The Group also successfully turned around from losses for the first, second and third quarter of 2002 to report a net profit of approximately HK\$0.7 million. As at 31st December 2002, the Group's backlog order surged 98% to over HK\$35 million in the period.

The Group's financial resources and liquidity continued to improve over the past twelve months. As at 31st December 2002, the Group had bank balances and cash of approximately HK\$14.4 million (2001: HK\$10.4 million) and banking facilities of approximately HK\$102.2 million (2001: HK\$34.3 million), approximately HK\$59.4 million (2001: HK\$25.5 million) of which has been utilized.

## Chairman's Statement

### FINAL DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31st December, 2002. (2001: Nil)

### BUSINESS REVIEW

During the year under review, Wafer Systems expanded its market presence in Changsha and Suzhou in the PRC. With regard to its businesses, major revenue was derived from the Network Infrastructure business, representing 85% (2001: 92%) of the Group's total turnover. Professional Services and Network Software accounted for the remaining 15% (2001: 8%) of the Group's turnover.

#### *Network Infrastructure*

Turnover generated by Network Infrastructure achieved a significant growth as compared to 2001. Leveraging its strong R&D capabilities, sophisticated products and solid experience, the Group successfully secured contracts to provide sophisticated infrastructure solutions to New World PCS Limited, the Vocational Training Council, Motorola and China Unicom. In addition, Jiangsu Telecom also commissioned the Group to expand and upgrade the functionality of its Data Communications Network. These contracts have enabled Wafer Systems to increase its market share in the specific market sectors and stand well ahead of its competitors.

In addition to Cisco, Nokia, Check Point and Radvision, the Group is committed to gearing up and equipping itself by forming strategic alliances with other leading industry players. In August 2002, the Group signed a Memorandum of Understanding with IBM China/Hong Kong Limited to jointly provide total e-business solutions to corporations. This move enhances Wafer Systems' competitiveness and enlarges its customer base.

At the same time, Wafer Systems formed a partnership with EMC Corporation and leading Quality of Service ("QoS") provider, Sitara Networks Inc., to incorporate their advanced technologies into Wafer System's networking solutions. These alliances will enhance the Group's competitive strengths, preparing it well for the industry's recovery.

#### *Professional Services*

The successful penetration among MNCs and leading corporations in the domestic market resulted in a substantial turnover growth in Professional Services in 2002 as compared to 2001. The Group believes this business sector will become an important growth driver in the years to come due to the rapid development of information technology, together with the growing number of local enterprises relying on the computer and information networks for their day-to-day operations.

Wafer Systems prides itself on its comprehensive and leading solutions and services that meet specific client business requirements. These successes have enabled the Group to establish a strong reputation among MNCs and local domestic enterprises, as they plan and implement improved value-added professional services. For example, the Group, triumphed over other strong candidates, when it was chosen by the Sichuan Provincial Branch of the Industrial and Commercial Bank of China to provide round-the-clock professional networking maintenance services. This achievement demonstrates the Group's excellence in providing premier professional services to different clients.

To further enhance its competitiveness and provide more comprehensive services to customers, the Group established a network monitoring center in Beijing. The center provides one-stop network monitoring solutions to clients through remotely controlled facilities which monitor their network systems.

# Chairman's Statement

## *Network Software*

With regard to the Network Software business, the Group is committed to developing new software products. During the year under review, the Group has launched its self-developed NextG IP Billing Software version 3.0. This compelling software aroused strong interest among the emerging New Service Providers where two Canadian IP telephone service providers signing contracts with the Group.

The Group is also placing emphasis on developing its all-in-one Network Management Software-the Wafer Management Services Support Systems ("WMSS"). Trials have been completed and the Group intends to launch the software soon.

## **PROSPECTS**

For the year ahead, Wafer Systems is ready and able to respond to market conditions as they unfold. In view of its network solutions and products, Wafer Systems has earned a leading reputation among MNCs in the PRC market. To significantly increase its customer base in the next year, the Group plans to penetrate the scalable local enterprise market. As Professional Services and Network Software are proving crucial to the development of MNCs and local enterprises, the Group will reinforce its expansion in these areas, using them as growth drivers to eventually balance revenues generated from the Group's three business segments including its Network Infrastructure sector.

Attracted by the sophisticated features of the Next Generation Network ("NGN"), many prominent telecommunication operators are turning to these advanced networks to accelerate their pace of development. Capturing these business opportunities, Wafer Systems is ideally placed to participate in NGN-related businesses in view of its partnership with the industry giant, Cisco Systems. This partnership will provide NGN-related products and services to a renowned telecommunications player in the PRC's Sichuan province. Harnessing the industry's leading network products and proven technologies, integrating these with the Group's renowned clientele and building on its market reputation, Wafer Systems believes that it will surge forward to gain a major foothold in the NGN industry.

Meanwhile, fueled by buoyant consumer spending and its entry to the WTO, the PRC continues to thrive as one of Asia's leading economies. By scaling up its operations in the PRC, Wafer Systems believes that the positive outcome will soon be reflected.

Against a backdrop of the current geo-political uncertainty, the outlook of the business may be challenging. Management will, however, continue to monitor the situation closely and react accordingly.

## **CONCLUSION**

In conclusion, I would like to thank our customers, suppliers, bankers, investors and business partners for their continued trust and support. I would also like to extend my thanks to all our staff for their hard work and major contribution to the Group's performance last year. We will continue to pursue growth into the future, bringing in better returns for our shareholders.

**Chan Sek Keung, Ringo**

*Chairman and Chief Executive Officer*

Hong Kong, 26th March, 2003



## Comparison of Business Objectives with Actual Business Progress

The following is a comparison of actual business progress in the year under review (“Review Period”) with the business objectives for the same period as set out in the prospectus of the Company dated 10th May, 2002 (the “Prospectus”). The Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

	<b>Business Objectives for the Review Period as set out in the Prospectus</b>	<b>Actual Business Progress in the Review Period</b>
<b>Business Development</b>	<p>Re-commence the Group’s operation in Singapore.</p> <p>Commence the operation of the network monitoring center in Beijing to provide Outsourcing Services.</p> <p>Establish sales and marketing presence in Suzhou and Changsha, the PRC.</p>	<p>Due to the unfavorable economic climate, the Group held up its plan to re-commence its operation in Singapore until the economic environment improves.</p> <p>The Group has established the network monitoring center in the PRC.</p> <p>Established market presence in Changsha and Suzhou.</p>
<b>Product Development and Service Launch</b>	<p><b>Network Infrastructure</b> Launch phase 1 of IP Multimedia Collaboration Solutions with additional features of video streaming and interactive video conferencing.</p> <p>Complete and launch phase 2 of IP Multimedia Collaboration Solutions.</p> <p>Commence the development of phase 3 of IP Multimedia Collaboration Solutions.</p> <p>Further increase its market share by promoting Network 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>The IP Multimedia Collaboration Solutions is now named as Navipresenter and the Group is discussing with the vendor as the sole distributor in Hong Kong.</p> <p>The phase 2 development has been completed.</p> <p>The development of phase 3 is in progress and targets to finish in July 2003.</p> <p>The Group has been promoting its Network Infrastructure Solutions, Network Security Solutions and Multimedia Solutions by acquiring Cisco’s specialization certifications in both Hong Kong and the PRC.</p>

## Comparison of Business Objectives with Actual Business Progress

	<b>Business Objectives for the Review Period as set out in the Prospectus</b>	<b>Actual Business Progress in the Review Period</b>
	<p><b>Professional Services</b> Further increase its market share by promoting Customer Services, Expert Services and Outsourcing Services.</p>	<p>The Group has successfully increased its revenue generated from professional services by recording a substantial growth in 2002.</p>
	<p><b>Network Software</b> Launch and Promote version 3.0 of the NextG IP Billing Software.</p> <p>Continue the research and development of the NextG IP Billing Software.</p> <p>Launch phase 1 of the Network Management Software.</p> <p>Continue the research and development of the Network Management Software.</p> <p>Complete the research and development of and launch the 1st version of the Operating Support System (“OSS”)/ Business Support System (“BSS”) Software.</p> <p>Commence the research and development of the 2nd version of the OSS/BSS Software.</p>	<p>The Group has launched version 3.0 of NextG IP Billing Software and successfully sold it to 2 Canadian Telecom Service Providers.</p> <p>The Group is continuously developing the NextG IP Billing Software intends to integrate it into the Next Generation Network.</p> <p>The Group has completed the development of the software and is named as Wafer Management Services Support System (“WMSS”).</p> <p>The Group is continuously developing the next phase of WMSS.</p> <p>The Group has launched the OSS/BSS Software for Next Generation Network.</p> <p>The Group is continuously developing the next phase of OSS/BSS Software.</p>

## Comparison of Business Objectives with Actual Business Progress

	<b>Business Objectives for the Review Period as set out in the Prospectus</b>	<b>Actual Business Progress in the Review Period</b>
<b>Sales and Marketing</b>	<p>Enter into sales agency agreements with agents in Japan to establish distribution networks for the NextG IP Billing Software and the Network Management Software in Japan.</p> <p>Carry out marketing activities to promote the Network Infrastructure Solution, version 3.0 of the NextG IP Billing Software and Professional Services.</p> <p>Promote its self-developed software in Southeast Asia to establish a sales network in the region.</p> <p>Increase efforts in brand building of the Group for its three business segments, which are Network Infrastructure, Professional Services, and Network Software, through comprehensive marketing campaigns in the PRC.</p>	<p>The Group has come up to a partnership with a Japanese agency to resell the Group's self-developed products.</p> <p>The Group has been promoting its products and services by making up-to-date marketing materials, and conducting seminars and exhibitions.</p> <p>The Group is now promoting its self-developed software in Southeast Asia to establish a sales network in the region.</p> <p>The Group has completed the development of its corporate identity standardization and increased public relations activities in order to enhance its corporate image in Hong Kong and the PRC.</p>

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTOR

**Mr. Chan Sek Keung, Ringo**, aged 43, is the founder, the chief executive officer and an executive Director of the Group. Mr. Chan founded the Group in November 1998 and is responsible for the overall management, strategic planning and development of the Group. Mr. Chan has 20 years of working experience in the networking industry. Mr. Chan holds a Bachelor's degree in Electrical Engineering from the University of Hong Kong.

## NON-EXECUTIVE DIRECTORS

**Mr. Alasdair Gordon Nagle**, aged 40, is a non-executive Director. Mr. Nagle joined the Group in March 1999. He is a director of HSBC Private Equity Technology (Asia) Limited, which is a wholly-owned subsidiary of HSBC Private Equity (Asia) Limited, and is a nominee of The Applied Research Council ("ARC") on the Board. Mr. Nagle is a member of the Institute of Chartered Accountants in England & Wales and holds a Master of Arts degree in French and Business Studies from Edinburgh University.

**Ms. Clara Ho**, aged 31, is a non-executive Director. Ms. Ho joined the Group in May 2001. Ms. Ho is an associate director of HSBC Private Equity (Asia) Limited and is a nominee of ARC on the Board. Ms. Ho holds a Bachelor's degree in Economics and Accounting from the University of Bristol and is a member of the Institute of Chartered Accountants in England & Wales.

**Mr. Kwan Kit Tong**, aged 44, is a non-executive Director. Mr. Kwan joined the Group in May 2001. He is the financial controller of QPL International Holdings Limited ("QPL") and the nominee of QPL on the Board. Mr. Kwan holds a Bachelor's degree in Commerce from the University of Southern Queensland and also holds fellow membership of the Chartered Association of Certified Accountants and the Hong Kong Society of Accountants.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Pang Hing Chung, Alfred**, aged 41, is an independent non-executive Director. Mr. Pang was appointed as an independent non-executive Director of the Company in March 1999. Mr. Pang is a director of China Vantage Technology Capital Limited. Mr. Pang holds an MBA degree from the Stanford Graduate School of Business and has a Bachelor of Arts degree in Economics from Cornell University.

**Mr. Tsoi Tai Wai, David**, aged 55, is an independent non-executive Director. Mr. Tsoi was appointed as an independent non-executive Director of the Company in October 2001. Mr. Tsoi is a Certified Public Accountant by profession, and he is currently the managing director of Tsoi Ha CPA Limited. Mr. Tsoi holds a Master's degree in Business Administration from the University of East Asia, Macau and also holds fellow membership of the Chartered Association of Certified Accountants, the Hong Kong Society of Accountants and associate membership of the Association of Certified General Accountants.

## Biographical Details of Directors and Senior Management

### SENIOR MANAGEMENT

**Ms. Wang Fang**, aged 34, is the vice president of the Group. Ms. Wang joined the Group in June 2001 and is responsible for the Group's overall operations, financial performance as well as sales and marketing activities in the PRC. Ms. Wang graduated from the Faculty of Telecommunications Engineering of the Nanjing Post and Telecom University in the PRC and also holds an International MBA degree from Peking University.

**Mr. Pang Kin Man, Edmond**, aged 55, is the company secretary of the Company. Mr. Pang has more than 30 years of working experience. Mr. Pang holds an associate membership of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Mr. Pang joined the Group in August 2001.

**Mr. Yau Kin Wa**, aged 34, is the qualified accountant and Finance Manager of the Group, Mr. Yau is a Fellow member of the Association of Chartered Certified Accountants and an Associate member of the Hong Kong Society of Accountants. Mr. Yau joined the Group in June 1999.

**Mr. Sha Xue Wen, Jack**, aged 33, is the head of research and development of the Group. Mr. Sha holds a Bachelor's degree in Applied Mathematics from Northwest Polytechnic University in Xi'an. Mr. Sha joined the Group in June 1999.

# Management Discussion and Analysis

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year under review, the Group continued to adopt conservative policies in cash and financial management and maintained a healthy financial position. Cash was mainly placed on interest-bearing deposits with banks, with a certain portion pledged to banks to acquire banking facilities. As at 31st December 2002, the total net current assets amounted to approximately HK\$53.1 million (2001: HK\$33.6 million), representing a 58% increase from 2001.

The Group generally financed its operations and serviced its debts with cash generated from its business operations, banking facilities, convertible bonds and net proceeds from the Placing (as defined in the Prospectus). As at 31st December 2002, the Group had bank balances and cash of approximately HK\$14.4 million (2001: HK\$10.4 million), total bank borrowings of approximately HK\$41.1 million (2001: HK\$18.6 million) which were payable within one year, and convertible bonds of approximately HK\$18.7 million (2001: nil) of which approximately HK\$7.4 million was due within one year.

As at 31st December 2002, the Group had banking facilities of approximately HK\$102.2 million (2001: HK\$34.3 million), out of which approximately HK\$59.4 million (2001: HK\$25.5 million) were utilized.

The Group believes the existing financial resources are sufficient to fulfill its current working capital requirements.

As at 31st December 2002, all assets and liabilities were denominated in U.S. dollars, Hong Kong dollars and Renminbi.

## ORDER BOOK AND PROSPECTS OF NEW BUSINESS

As at 31st December 2002, the Group had contracts on hand for sales amounting to approximately HK\$35.5 million (2001: HK\$17.9 million) which would be booked as revenue upon delivery and implementation.

While closely tracking the development of the Next Generation Network and its business opportunities, the Group will continue to concentrate on its present core business segments.

## CHARGES ON GROUP ASSETS

As at 31st December 2002, the Group had banking facilities of approximately HK\$102.2 (2001: HK\$34.3 million) which were secured by pledged bank deposits of approximately HK\$18.4 million (2001: HK\$21.4 million) and corporate guarantees provided by the Company of approximately HK\$103.2 million (2001: nil).

Save as disclosed above, the Group did not have any significant charges on assets as at 31st December 2002.

## GEARING RATIO

As at 31st December 2002, the gearing ratio (non-current liabilities over total assets) was reduced to approximately 6.8% from approximately 18.8% as at 31st December 2001. The improvement was mainly due to net proceeds raised from the Placing and conversion of convertible note during the year under review.

## FOREIGN EXCHANGE EXPOSURE

During the year under review, the Group earned revenue and incurred costs and expenses mainly in U.S. dollars, Hong Kong dollars and Renminbi. As the exchange rates of such currencies have been stable, no hedging or other alternatives have been implemented.

# Management Discussion and Analysis

## CONTINGENT LIABILITIES

Except for those commitments and contingent liabilities set out in note 26 to note 28 to the financial statements, the Group had no significant contingent liabilities as at 31st December 2002.

## ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group had no significant acquisitions, disposals and investment during the year under review.

## FUTURE PLANS FOR INVESTMENTS OR CAPITAL ASSETS AND SOURCES OF FUNDING

With the exception of those plans set out in the Prospectus, there have been no plans for significant investment, capital assets and sources of funding.

## EMPLOYEE INFORMATION

As at 31st December 2002, the Group had 140 employees comprising 27 employees based in Hong Kong and 113 employees based in Mainland China. The Group continues to provide remuneration package to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides other benefits such as a mandatory provident fund, medical scheme, share options scheme and staff training programs to employees. There has been no major change on staff remuneration policies during the year.

The share option schemes continue to play an important role in the motivation and retention of quality employees.

## USE OF PROCEEDS

The net proceeds raised from the new issue of shares by way of Placing were approximately HK\$19.2 million, and were utilized in the following areas:

	Use of proceeds as stated in the Prospectus		Actual amount utilized up to 31st December 2002 HK\$'million
	Total	Up to 31st December 2002	
	HK\$'million	HK\$'million	
Research and development	6	1.6	2.3
Expansion of geographical establishments	4	1	0.2
Establishment of network monitoring centre	3	0.8	0.7
Sales and marketing	2	0.5	0.3
Working capitals	4	4.0	4.0
<b>Total</b>	<b>19</b>	<b>7.9</b>	<b>7.5</b>

The remaining proceeds of approximately HK\$11.7 million were placed with licensed banks in Hong Kong and PRC.

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December, 2002.

## PUBLIC LISTING

The shares of the Company were listed on GEM of the Stock Exchange on 17th May, 2002.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while its subsidiaries are engaged in the provision of network infrastructure solutions, including the sale of network equipment and software and the provision of related network infrastructure services, provision of network professional services, and sale of its proprietary network software.

The principal activities of the Company's principal subsidiaries are set out in note 30 to the financial statements.

## RESULTS

The results of the Group for the year ended 31st December, 2002 are set out in the consolidated income statement on page 22 of the annual report.

The directors do not recommend the payment of a dividend.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 20 to the financial statements.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 25 of the annual report and note 23 to the financial statements respectively.

The Company's reserves available for distribution represent the share premium less deficit which in aggregate amounted to HK\$31.2 million as at 31st December, 2002. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's Articles of Association, dividends shall be distributed out of the retained profits or other reserves, including the share premium account, of the Company.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred HK\$4.5 million in the acquisition of property, plant and equipment which mainly comprised computer equipment and tools. Details of these and other movements in property, plant and equipment of the Group are set out in note 11 to the financial statements.



# Directors' Report

## DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were as follows:

### *Executive director:*

Chan Sek Keung, Ringo (*Chairman and Chief Executive Officer*)

### *Non-executive directors:*

Alasdair Gordon Nagle

Clara Ho

Kwan Kit Tong

### *Independent non-executive directors:*

Pang Hing Chung, Alfred

Tsoi Tai Wai, David

The executive director has entered into a service contract with the Company for an initial term of three years commencing 1st January, 2002 which will continue thereafter until terminated by either party giving the other not less than six months' prior written notice.

Each of the non-executive directors and independent non-executive directors has been appointed for a term of two years, commencing 1st April, 2002, subject to rotation as required by the Articles of Association of the Company.

In accordance with Article 87 of the Company's Articles of Association, Mr. Pang Hing Chung, Alfred retires by rotation and, being eligible, offers himself for re-election.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December, 2002, the interests of the directors and chief executive and their associates in ordinary shares of the Company and their associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or which are required, pursuant to Rules 5.40 to 5.59 of the rules governing the listing of securities on GEM of the Stock Exchange (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Name of director	Number of ordinary shares held			
	Personal interest	Family interest	Corporate interest	Other interest
Chan Sek Keung, Ringo	564,000	–	56,400,000 <i>(Note)</i>	–

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

## Directors' Report

Save as disclosed above and disclosed under the heading "Directors' and chief executive's rights to acquire shares or debentures" in this report, as at 31st December, 2002, none of the directors, chief executive nor any of their associates had any personal, family, corporate or other interests in the equity of the Company or any of its associated corporations 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 OR DEBENTURES

Pursuant to the Company's pre-listing share option scheme, the directors and chief executive of the Company have personal interest in share options which were granted to them on 30th April, 2002 to subscribe for ordinary shares in the Company at an exercise price of HK\$0.55 per share exercisable after six months from the date of listing, that is from 17th November, 2002 to 29th April, 2012. A summary of these share options granted is as follows:

Name of director	Number of share options granted during the year and outstanding at 31.12.2002
Chan Sek Keung, Ringo	3,000,000
Pang Hing Chung, Alfred	750,000

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the directors or the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors or the chief executive or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

### SUBSTANTIAL SHAREHOLDERS

So far as the directors are aware, as at 31st December, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following persons, in addition to the director stated under the paragraph headed "Directors' and chief executive's interests in securities" in this report, are interested in 10% or more of the nominal value of the issued ordinary shares of the Company:

Name of shareholder	Number of ordinary shares beneficially held
The Applied Research Council ( <i>Note i</i> )	48,460,000
North 22 Nominees Limited ( <i>Note ii</i> )	36,900,000
Ng Lai Yick ( <i>Note ii</i> )	36,900,000
QPL International Holdings Limited ("QPL") ( <i>Note iii</i> )	27,780,000

# Directors' Report

*Notes:*

- (i) In addition to this shareholding, The Applied Research Council also holds the convertible bonds issued by the Company with face value of HK\$20,048,100 in aggregate. If these convertible bonds were fully converted at their respective maturity dates, The Applied Research Council will hold an additional 38,063,603 shares in the Company.
- (ii) North 22 Nominees Limited is beneficially wholly-owned by Mr. Ng Lai Yick and Mr. Ng Lai Yick is accordingly deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by North 22 Nominees Limited.
- (iii) In addition to this shareholding, QPL holds 7,676,745 warrants in the Company which are exercisable within 6 months from 17th May, 2003 at the exercise price of HK\$0.01 per share.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31st December, 2002.

## SHARE OPTIONS

### (a) *Pre-listing share option scheme*

A summary of the pre-listing share options granted during the year which are exercisable from 17th November, 2002 to 29th April, 2012 is as follows:

Type of participants	Exercise price per share HK\$	Number of share options		
		Granted on 30.04.2002	Cancelled during the year	Outstanding at 31.12.2002
Directors	0.55	3,750,000	–	3,750,000
Adviser	0.55	750,000	–	750,000
Employees	0.55	7,413,000	1,500,000	5,913,000
		11,913,000	1,500,000	10,413,000

The exercise price per share of the above share options granted under the pre-listing share option scheme represented the initial public offering price of the Company's shares. No options granted under this scheme lapsed or were exercised since the date of grant and up to 31st December, 2002.

Options granted are exercisable as to (i) a maximum of 25% of the total number of options granted six months after 17th May, 2002, (the "Date of Listing"); (ii) a maximum additional 6.25% of the total number of options granted after the expiry of each 3-month period twelve months after the Date of Listing; and (iii) the remaining options granted on or after the third anniversary of the Date of Listing until the end of the option period or lapse of an option.

The total number of shares in respect of which options are issuable under this scheme was 11,913,000, representing 4.22% of the issued share capital of the Company at both the Date of Listing and 31st December, 2002.

## Directors' Report

No participant shall be granted an option which, if exercised in full, would result in such participant becoming entitled to subscribe for such number of shares, as, when aggregated with the total number of shares already issued under all the options previously granted to him or her which have been exercised, and, issuable under all the outstanding options previously granted to him or her which are for the time being subsisting and unexercised, would exceed 1% of the total number of shares in issue in any 12-month period up to the date of grant of the option.

### (b) *Post-listing share option scheme*

A summary of the post-listing share options granted during the year which are exercisable from 12th July, 2003 to 11th July, 2012 is as follows:

Type of participants	Exercise price per share HK\$	Number of share options		
		Granted on 12.07.2002	Cancelled during the year	Outstanding as at 31.12.2002
Employees	0.384	5,277,000	270,000	5,007,000

The exercise price per share of the above share options granted under the post-listing share option scheme represented the average of closing prices of the Company's shares on the Stock Exchange on the five trading days immediately preceding the date of grant. The closing price of the shares of the Company immediately before the date of grant was HK\$0.385. No options granted under this scheme lapsed or were exercised since the date of grant and up to 31st December, 2002.

The post-listing share options are exercisable, starting from the first anniversary of the grant date at stepped annual increments of 25% of the total options granted, for a period not later than 10 years from the date of grant.

The total number of shares in respect of which options are issuable under this scheme was 28,226,800, representing 10% of the issued share capital of the Company at both the Date of Listing and 31st December, 2002.

No participant shall be granted an option which, if exercised in full, would result in such participant becoming entitled to subscribe for such number of shares, as, when aggregated with the total number of shares already issued under all the options previously granted to him or her which have been exercised, and issuable under all the outstanding options previously granted to him or her which are for the time being subsisting and unexercised, would exceed 1% of the total number of shares in issue in any 12-month period up to the date of grant of the option.

The directors of the Company consider that it is inappropriate to state the value of the options granted under the above share option schemes of the Company adopted on 20th April, 2002 (the "Schemes") due to the following reasons:

- (i) the calculation of the value of the options will be based on a number of undetermined but crucial variable such as the subscription price payable for the shares in the Company, the number of options to be granted under the Schemes during their duration, the exercise period, interest rate, expected volatility and other relevant variables. In particular, the duration of the Schemes of 10 years will make these volatile variables very difficult to ascertain with accuracy;

## Directors' Report

- (ii) the generally accepted pricing models of options normally value options which are transferable but the options granted to a grantee under the Schemes are personal to the grantee which are non-transferable and non-assignable and hence calculation of the value of the options granted under the Schemes using such pricing models may not be appropriate; and
- (iii) the directors of the Company are of the view that the calculation on speculative assumptions would not be meaningful and would be misleading to shareholders of the Company.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or its holding company or any of 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.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 58% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 25% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 84% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 69% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

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

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

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### CORPORATE GOVERNANCE

The Company has complied with the broad practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the period from its listing date to 31st December, 2002.

An audit committee was established on 30th October, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The two independent non-executive directors, Mr. Tsoi Tai Wai, David and Mr. Pang Hing Chung, Alfred and the executive director, Mr. Chan Sek Keung, Ringo have been appointed to the audit committee. Mr. Tsoi Tai Wai, David was appointed as the Chairman of the audit committee.

## Directors' Report

During the year, the audit committee held three meetings and the primary duties of the meetings were to review and supervise the financial reporting process and internal control system of the Group.

### COMPETING INTEREST

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

### SPONSOR'S INTERESTS

None of the Company's sponsor, CSC Asia Limited, its directors, employees or associates (as referred to in Note 3 to the Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 31st December, 2002.

Pursuant to an agreement dated 10th May, 2002, CSC Asia Limited has been retained to act as the Company's sponsor for the period up to 31st December, 2004 in return for a monthly advisory fee.

### AUDITORS

Messrs. Arthur Andersen & Co. were the auditors of the Group up to 31st July 2002, on which date they resigned.

On 13th September 2002, at an extraordinary general meeting of the Company, Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Group till the holding of the next annual general meeting.

The financial statements accompanying this Annual Report were audited by Messrs. Deloitte Touche Tohmatsu. A resolution will be submitted to the annual general meeting of the Company to be held on 25th April 2003 for their re-appointment.

On behalf of the Board of Directors of  
**Wafer Systems Limited**

**Chan Sek Keung, Ringo**

*Chairman and Chief Executive Officer*

Hong Kong, 26th March, 2003

## Auditors' Report

### 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

香港中環干諾道中111號  
永安中心26樓

**Deloitte  
Touche  
Tohmatsu**

#### TO THE SHAREHOLDERS OF WAFER SYSTEMS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 22 to 51 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### Basis of Opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st December, 2002 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**

Hong Kong, 26th March, 2003

# Consolidated Income Statement

For the year ended 31st December, 2002

	<i>Notes</i>	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Turnover	4	<b>180,333</b>	149,579
Other operating income		<b>424</b>	2,263
Materials and equipment		<b>(138,836)</b>	(109,515)
Staff costs		<b>(17,441)</b>	(12,505)
Depreciation and amortisation		<b>(4,771)</b>	(2,697)
Management fees to business agents, net		–	(3,297)
Other operating expenses		<b>(23,923)</b>	(12,288)
(Loss) profit from operations	5	<b>(4,214)</b>	11,540
Finance costs	8	<b>(2,186)</b>	(3,342)
(Loss) profit before taxation		<b>(6,400)</b>	8,198
Taxation	9	<b>551</b>	(191)
Net (loss) profit attributable to shareholders		<b>(5,849)</b>	8,007
(Loss) earnings per share	10		
– Basic		<b>(2.40) cents</b>	4.85 cents
– Diluted		<b>N/A</b>	3.85 cents



# Consolidated Balance Sheet

At 31st December, 2002

	Notes	2002 HK\$'000	2001 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	11	5,550	4,460
Software products development costs	12	5,552	3,319
Investments in securities	14	400	400
		<b>11,502</b>	8,179
<b>Current assets</b>			
Inventories		22,740	5,560
Trade and other receivables	15	97,161	57,717
Pledged bank deposits		19,948	21,438
Bank balances and cash		14,412	10,386
		<b>154,261</b>	95,101
<b>Current liabilities</b>			
Trade and other payables	16	52,531	25,076
Taxation		196	2,349
Convertible bonds maturing within one year	17	7,363	–
Convertible note maturing within one year		–	15,500
Short-term bank loans – secured		–	4,421
Trust receipt and import loans	18	40,697	11,123
Bank overdrafts	19	356	3,071
		<b>101,143</b>	61,540
<b>Net current assets</b>		<b>53,118</b>	33,561
<b>Total assets less current liabilities</b>		<b>64,620</b>	41,740
<b>Non-current liabilities</b>			
Convertible note maturing after one year		–	19,375
Convertible bonds maturing after one year	17	11,294	–
<b>Net assets</b>		<b>53,326</b>	22,365
<b>Capital and reserves</b>			
Share capital	20	2,823	1,778
Reserves		50,503	20,587
<b>Shareholders' funds</b>		<b>53,326</b>	22,365

The financial statements on pages 22 to 51 were approved and authorised for issue by the Board of Directors on 26th March, 2003 and are signed on its behalf by:

**Chan Sek Keung, Ringo**  
Chairman and  
Chief Executive Officer

**Tsoi Tai Wai, David**  
Director

# Balance Sheet

At 31st December, 2002

	<i>Notes</i>	<b>2002</b> <b>HK\$'000</b>	2001 HK\$'000
Non-current asset			
Investment in a subsidiary	13	10	10
Current assets			
Prepayments		–	3,096
Amount due from a subsidiary		53,745	20,790
		<b>53,745</b>	23,886
Current liabilities			
Accounts payables		50	1,292
Amounts due to subsidiaries		1,058	866
Convertible bonds maturing within one year	17	7,363	–
		<b>8,471</b>	2,158
Net current assets		<b>45,274</b>	21,728
Total assets less current liabilities		<b>45,284</b>	21,738
Non-current liabilities			
Convertible bonds maturing after one year	17	11,294	–
Net assets		<b>33,990</b>	21,738
Capital and reserves			
Share capital	20	2,823	1,778
Reserves	23	31,167	19,960
Shareholders' funds		<b>33,990</b>	21,738

**Chan Sek Keung, Ringo**  
Chairman and  
Chief Executive Officer

**Tsoi Tai Wai, David**  
Director

## Consolidated Statement of Changes in Equity

*For the year ended 31st December, 2002*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Statutory surplus reserve fund <i>HK\$'000</i>	Enterprise expansion fund <i>HK\$'000</i>	Staff welfare fund <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2001	234	3,149	–	–	–	(7,479)	(4,096)
Issue of new shares to satisfy a promissory note	43	19,357	–	–	–	–	19,400
Expenses incurred in connection with the issue of shares	–	(946)	–	–	–	–	(946)
Capitalisation on bonus issue of shares	1,501	(1,501)	–	–	–	–	–
Transfers	–	–	543	272	272	(1,087)	–
Net profit attributable to shareholders	–	–	–	–	–	8,007	8,007
At 31st December, 2001	1,778	20,059	543	272	272	(559)	22,365
Exercise of conversion rights of a convertible note	354	17,084	–	–	–	–	17,438
Exercise of warrants	131	73	–	–	–	–	204
Issue of new shares on listing	560	30,251	–	–	–	–	30,811
Expenses incurred in connection with the issue of shares	–	(11,643)	–	–	–	–	(11,643)
Net loss attributable to shareholders	–	–	–	–	–	(5,849)	(5,849)
Transfers	–	–	460	230	230	(920)	–
At 31st December, 2002	2,823	55,824	1,003	502	502	(7,328)	53,326

As stipulated by the relevant laws and regulations for foreign investment enterprises in the Mainland China (the "PRC"), the PRC subsidiaries of the Company is required to maintain three statutory reserves, being a statutory surplus reserve fund, an enterprise expansion fund and a staff welfare fund which are non-distributable. Appropriations to such reserves are made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries and the amount and allocation basis are decided by its board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses of the PRC subsidiaries, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue. The staff welfare fund, which is to be used for the welfare of the staff and workers of the Company, is of a capital nature.

# Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Operating activities		
(Loss) profit before taxation	<b>(6,400)</b>	8,198
Adjustments for:		
Interest income	<b>(311)</b>	(711)
Interest expenses	<b>967</b>	3,342
Amortisation of discount on convertible bonds	<b>1,219</b>	–
Depreciation and amortisation	<b>4,771</b>	2,697
Gain on disposal of property, plant and equipment	<b>(18)</b>	–
Gain on termination of certain warrant rights entitlements	–	(1,552)
Allowance for bad and doubtful debts	<b>2,293</b>	626
Operating cash flows before movements in working capital	<b>2,521</b>	12,600
Increase in inventories	<b>(17,180)</b>	(2,599)
Increase in trade and other receivables	<b>(43,818)</b>	(20,140)
Increase in trade and other payables	<b>27,455</b>	13,552
Decrease in amount due to a related company	–	(792)
Cash (used in) generated from operations	<b>(31,022)</b>	2,621
Mainland China income tax paid	<b>(1,602)</b>	–
Net cash (used in) generated from operating activities	<b>(32,624)</b>	2,621
Investing activities		
Interest received	<b>311</b>	711
Purchase of property, plant and equipment	<b>(2,415)</b>	(3,399)
Proceeds from disposal of property, plant and equipment	<b>94</b>	–
Software products development costs paid	<b>(3,674)</b>	(2,523)
Acquisition of investments in securities	–	(400)
Decrease (increase) in pledged bank deposits	<b>1,490</b>	(4,238)
Net cash used in investing activities	<b>(4,194)</b>	(9,849)

## Consolidated Cash Flow Statement

For the year ended 31st December, 2002

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Financing activities		
Interest paid	<b>(966)</b>	(3,342)
Proceeds from issue of shares	<b>31,015</b>	–
Expenses incurred in connection with the issue of shares	<b>(11,643)</b>	(946)
Borrowings raised from trust receipt and import loans	<b>29,574</b>	5,281
(Repayment of) borrowings raised from short-term bank loans	<b>(4,421)</b>	4,421
Net cash generated from financing activities	<b>43,559</b>	5,414
Net increase (decrease) in cash and cash equivalents	<b>6,741</b>	(1,814)
Cash and cash equivalents at 1st January	<b>7,315</b>	9,129
Cash and cash equivalents at 31st December	<b>14,056</b>	7,315
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>14,412</b>	10,386
Bank overdrafts	<b>(356)</b>	(3,071)
	<b>14,056</b>	7,315

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 1. GENERAL

The Company is incorporated in the Cayman Islands as an exempt company with limited liability. The shares of the Company were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 17th May, 2002.

The Company acts as an investment holding company while its subsidiaries are engaged in the provision of network infrastructure solutions, including the sale of network equipment and software and the provision of related network infrastructure services, provision of network professional services, and sale of its proprietary network software.

## 2. ADOPTION OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time the following new or revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of these new or revised SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement as well as additional disclosures. These changes have not had any material effect on the results for the current or prior period. Accordingly, no prior period adjustment was required.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

### ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

### ***Investments in subsidiaries***

Investments in subsidiaries are stated at cost less any identified impairment loss.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### ***Investments in securities***

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss that is other than temporary.

### ***Turnover***

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the provision of network infrastructure solutions, network professional services and network software.

### ***Revenue recognition***

Sales of network equipment and software are recognised when the network equipment and software are delivered and title has passed.

Revenue from the provision of network infrastructure services and network professional services are recognised when the services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

### ***Property, plant and equipment***

Property, plant and equipment are stated at cost less depreciation and any identified impairment loss at the balance sheet date.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the rate of 33 $\frac{1}{3}$ % per annum.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### *Software products development costs*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated asset arising from software products development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life of three years.

Where no internally-generated software product can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### *Inventories*

Inventories, which represent goods held for sale, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less all estimated costs necessary to make the sale.

### *Impairment*

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are 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.

### *Convertible bonds*

Convertible bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible bonds, including the amortisation of discount payable upon the final redemption of the convertible bonds, is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible bonds for each accounting period.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### ***Taxation***

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

### ***Foreign currencies***

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### ***Operating leases***

Rentals payable under operating leases are charged to the income statement on a straight line basis over the period of the respective leases.

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

### ***Business segments***

For management purposes, the Group's operations are organised into three operating divisions namely network infrastructure, network professional services and network software. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- |                               |   |                                                                                                         |
|-------------------------------|---|---------------------------------------------------------------------------------------------------------|
| Network infrastructure        | – | the sale of network equipment and software and the provision of related network infrastructure services |
| Network professional services | – | provision of network professional services                                                              |
| Network software              | – | the sale of the Group's proprietary network software                                                    |

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

### *Business segments (continued)*

Business segments for the year are as follows:

	2002		2001	
	Turnover <i>HK\$'000</i>	Results <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Results <i>HK\$'000</i>
Network infrastructure	153,650	(1,327)	136,978	6,498
Network professional services	26,326	(1,169)	10,342	1,941
Network software	357	(1,787)	2,259	886
	<u>180,333</u>	<u>(4,283)</u>	<u>149,579</u>	9,325
Other operating income		424		2,263
Central administrative expenses		<u>(355)</u>		<u>(48)</u>
(Loss) profit from operations		<u>(4,214)</u>		11,540
Finance costs		<u>(2,186)</u>		<u>(3,342)</u>
(Loss) profit before taxation		<u>(6,400)</u>		8,198
Taxation		<u>551</u>		<u>(191)</u>
Net (loss) profit attributable to shareholders		<u>(5,849)</u>		8,007

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Business segments (continued)

	2002 HK\$'000	2001 HK\$'000
<b>BALANCE SHEET</b>		
Assets		
Segment assets		
– network infrastructure	85,518	39,537
– network professional services	20,984	5,822
– network software	6,259	5,720
Unallocated corporate assets	53,002	52,201
	<b>165,763</b>	103,280
Liabilities		
Segment liabilities		
– network infrastructure	93,228	40,620
Unallocated corporate liabilities	19,209	40,295
	<b>112,437</b>	80,915
<b>OTHER INFORMATION</b>		
Capital additions		
– network infrastructure	3,070	2,803
– network professional services	1,316	852
– network software	3,784	3,082
	<b>8,170</b>	6,737
Depreciation and amortisation		
– network infrastructure	2,047	1,364
– network professional services	877	415
– network software	1,847	918
	<b>4,771</b>	2,697
Gain on disposal of property, plant and equipment		
– network infrastructure	18	–
Allowance for bad and doubtful debts		
– network infrastructure	1,397	552
– network professional services	890	58
– network software	6	16
	<b>2,293</b>	626

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

### Geographical segments

The Group's operations are located in Hong Kong, Mainland China (the "PRC") and Republic of Singapore. The following table provides an analysis of the Group's geographical segment information:

	Turnover	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong	15,535	24,066
PRC	164,798	125,513
Republic of Singapore	–	–
	<b>180,333</b>	149,579

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong	122,855	35,886	416	1,321
PRC	42,908	67,394	7,754	5,416
	<b>165,763</b>	103,280	<b>8,170</b>	6,737

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 5. (LOSS) PROFIT FROM OPERATIONS

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(Loss) profit from operations has been arrived at after charging:		
Directors' remuneration other than fees ( <i>note 6</i> )	<b>1,239</b>	1,205
Other staff costs	<b>18,033</b>	12,636
Other staff's retirement benefits scheme contributions	<b>679</b>	640
Less: Staff costs capitalised in software products development costs	<b>(2,510)</b>	(1,976)
	<b>17,441</b>	12,505
Allowance for bad and doubtful debts	<b>2,293</b>	626
Amortisation of software products development costs	<b>1,441</b>	666
Auditors' remuneration	<b>450</b>	220
Depreciation of property, plant and equipment	<b>3,330</b>	2,031
Operating lease rentals in respect of land and buildings	<b>2,823</b>	1,350
Research and development costs	<b>297</b>	455
and after crediting:		
Gain on disposal of property, plant and equipment	<b>18</b>	–
Interest income	<b>311</b>	711

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 6. DIRECTORS' REMUNERATION

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees for		
– executive director	–	–
– independent non-executive directors	<b>160</b>	–
– other non-executive directors	–	–
	<b>160</b>	–
Other emoluments for non-executive directors	–	–
Other emoluments for executive director		
– basic salaries and allowances	<b>1,227</b>	1,193
– retirement benefits scheme contributions	<b>12</b>	12
	<b>1,239</b>	1,205
<b>Total directors' remuneration</b>	<b>1,399</b>	1,205

The emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>2002</b>	2001
Up to HK\$1,000,000	<b>5</b>	10
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1

For each of the two years ended 31st December, 2002, the details of remuneration for the executive director are set out above. The directors' fees for each of the independent non-executive director is HK\$80,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 7. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one executive director of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining four highest paid individuals are as follows:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Basic salaries and allowances	<b>3,009</b>	3,018
Bonus	<b>200</b>	153
Retirement benefits scheme contributions	<b>54</b>	57
Severance payments	<b>109</b>	–
	<b>3,372</b>	3,228

None of the four highest paid individuals received emoluments in excess of HK\$1 million.

## 8. FINANCE COSTS

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on		
– a convertible note	–	(2,441)
– bank borrowings wholly repayable within five years	<b>(967)</b>	(901)
Amortisation of discount on convertible bonds	<b>(1,219)</b>	–
	<b>(2,186)</b>	(3,342)

## 9. TAXATION

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the year	–	(191)
Overprovision in prior years	<b>747</b>	–
PRC income tax	<b>(196)</b>	–
	<b>551</b>	(191)

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 9. TAXATION (continued)

No provision for Hong Kong Profits Tax has been made in the financial statements in 2002 as the Group had no assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are entitled to exemption from PRC income tax for two or three years commencing from their first profit-making year of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC income tax for the following three years. During the year, only one of the Company's PRC subsidiaries is within its 50% tax relief period, the rest are within their tax exemption period.

## 10. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the net loss attributable to shareholders of HK\$5,849,000 (2001: net profit of HK\$8,007,000) and the weighted average number of 243,625,000 shares in issue during the year (2001: 165,221,000 shares after adjusting for the effect of the redenomination, subdivision and consolidation of shares as well as bonus issue made by the Company).

No diluted loss per share has been presented in 2002 as the effect of the potential shares outstanding during the year was anti-dilutive.

The calculation of the diluted earnings per share in 2001 was based on the following data:

	<i>HK\$'000</i>
Earnings for the purposes of basic earnings per share	8,007
Effect of dilutive potential ordinary shares in respect of convertible note	2,051
<b>Earnings for the purpose of diluted earnings per share</b>	<b>10,058</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	165,221
Effect of dilutive potential ordinary shares	
– promissory note	12,557
– convertible note	70,827
– warrants	12,755
<b>Weighted average number of ordinary shares for the purposes of diluted earnings per share</b>	<b>261,360</b>



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 11. PROPERTY, PLANT AND EQUIPMENT

	<b>Computer equipment</b> <i>HK\$'000</i>	<b>Furniture, fixtures and office equipment</b> <i>HK\$'000</i>	<b>Motor vehicles</b> <i>HK\$'000</i>	<b>Tools</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE GROUP</b>					
<b>COST</b>					
At 1st January, 2002	5,211	1,009	272	3,063	9,555
Additions	2,736	450	–	1,310	4,496
Disposals	–	–	–	(1,610)	(1,610)
At 31st December, 2002	7,947	1,459	272	2,763	12,441
<b>DEPRECIATION</b>					
At 1st January, 2002	2,570	495	116	1,914	5,095
Provided for the year	2,166	388	55	721	3,330
Eliminated on disposals	–	–	–	(1,534)	(1,534)
At 31st December, 2002	4,736	883	171	1,101	6,891
<b>NET BOOK VALUES</b>					
At 31st December, 2002	3,211	576	101	1,662	5,550
At 31st December, 2001	2,641	514	156	1,149	4,460

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 12. SOFTWARE PRODUCTS DEVELOPMENT COSTS

	<i>HK\$'000</i>
<hr/>	
<b>THE GROUP</b>	
COST	
At 1st January, 2001	1,503
Additions	2,523
<hr/>	
At 31st December, 2001	4,026
Additions	3,674
<hr/>	
At 31st December, 2002	7,700
<hr/>	
AMORTISATION	
At 1st January, 2001	41
Amortised for the year	666
<hr/>	
At 31st December, 2001	707
Amortised for the year	1,441
<hr/>	
At 31st December, 2002	2,148
<hr/>	
CARRYING VALUES	
At 31st December, 2002	5,552
<hr/>	
At 31st December, 2001	3,319
<hr/>	

## 13. INVESTMENT IN A SUBSIDIARY

	<b>THE COMPANY</b> <b>2002 &amp; 2001</b> <i>HK\$'000</i>
<hr/>	
Unlisted shares, at cost	10
<hr/>	

Details of the Company's principal subsidiaries at 31st December, 2002 are set out in note 30.

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 14. INVESTMENTS IN SECURITIES

**THE GROUP**  
**2002 & 2001**  
*HK\$'000*

Unlisted investments securities, at cost	400
------------------------------------------	-----

The investments in securities at 31st December, 2002 represents the Company's 15% shareholding in New Eracom Technology Limited which is incorporated in Hong Kong and engaged in the provision of Internet protocol multimedia collaboration applications.

### 15. TRADE AND OTHER RECEIVABLES

**THE GROUP**

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Trade receivables	<b>78,919</b>	37,740
Other receivables	<b>13,022</b>	9,720
Amount due from a related business agent	–	8,481
Prepaid maintenance charges	<b>5,220</b>	1,776
	<b>97,161</b>	57,717

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 15. TRADE AND OTHER RECEIVABLES (continued)

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 30 to 90 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Age		
0 to 30 days	48,452	12,546
31 to 60 days	3,912	6,132
61 to 90 days	5,412	8,621
91 to 180 days	16,440	2,801
181 to 365 days	4,323	8,045
Over 365 days	3,611	533
	<b>82,150</b>	38,678
Less: Allowance for bad and doubtful debts	<b>(3,231)</b>	(938)
	<b>78,919</b>	37,740

## 16. TRADE AND OTHER PAYABLES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Trade payables	43,926	17,091
Other payables	8,605	7,985
	<b>52,531</b>	25,076

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 16. TRADE AND OTHER PAYABLES (continued)

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Age		
0 to 30 days	39,642	9,238
31 to 90 days	756	7,593
91 to 180 days	3,287	130
181 to 270 days	241	21
271 to 365 days	–	96
Over 365 days	–	13
	<b>43,926</b>	17,091

### 17. CONVERTIBLE BONDS

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Convertible bonds with an aggregate face value of HK\$20,048,100 discounted at a rate of 7% per annum	17,438	–
<i>Add:</i> Accumulated amortisation of discount upon the final redemption of the convertible bonds	1,219	–
	<b>18,657</b>	–
The convertible bonds mature as follows:		
Within one year	7,363	–
Between one to two years	8,673	–
Between two to five years	2,621	–
	<b>18,657</b>	–
<i>Less:</i> Amount matures within one year shown under current liabilities	7,363	–
Amount matures after one year	<b>11,294</b>	–

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 17. CONVERTIBLE BONDS (continued)

The convertible bonds were issued by the Company in April 2002 to replace 50% of the convertible note issued by the Company's subsidiary which amounted to HK\$17,437,500. The redemption monies of the convertible note were used to subscribe for these convertible bonds which represent an aggregate face value of HK\$20,048,100 with various maturity dates between 2003 and 2005 discounted at a rate of 7% per annum. The bondholder, The Applied Research Council, which is also a substantial shareholder of the Company, has the right, at any time during the period from 18th May, 2003 up to and including the maturity date of the convertible bond, to convert into ordinary shares of the Company at a conversion price of HK\$0.5267 per share, subject to adjustments. The Company has the right to redeem the convertible bonds prior to its maturity subject to the prior consent of the bondholder.

## 18. TRUST RECEIPT AND IMPORT LOANS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Trust receipt and import loans		
– secured	12,474	11,123
– unsecured	28,223	–
	<b>40,697</b>	11,123

## 19. BANK OVERDRAFTS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Bank overdrafts		
– secured	335	3,071
– unsecured	21	–
	<b>356</b>	3,071

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 20. SHARE CAPITAL

	Number of ordinary shares	Nominal value per ordinary share	Amount <i>'000</i>
Authorised:			
– at 1st January, 2001	500,000,000	US\$0.0002	US\$100
– redenomination, subdivision and consolidation of shares	78,000,000	HK\$0.01	HK\$780
– increase in authorised share capital	422,000,000	HK\$0.01	HK\$4,220
– at 31st December, 2001 and at 31st December, 2002	500,000,000	HK\$0.01	HK\$5,000
Issued and fully paid:			
– at 1st January, 2001	150,000,000	US\$0.0002	US\$30
– issue of new shares to satisfy a promissory note	27,777,800	US\$0.0002	US\$6
	177,777,800	US\$0.0002	US\$36
– redenomination, subdivision and consolidation of shares	27,733,337	HK\$0.01	HK\$277
– bonus issue of shares	150,044,463	HK\$0.01	HK\$1,501
– at 31st December, 2001	177,777,800	HK\$0.01	HK\$1,778
– exercise of conversion rights of a convertible note	35,413,282	HK\$0.01	HK\$354
– exercise of warrants	13,045,000	HK\$0.01	HK\$131
– bonus issue of shares	11,918	HK\$0.01	–
– issue of new shares on listing	56,020,000	HK\$0.01	HK\$560
– at 31st December, 2002	282,268,000	HK\$0.01	HK\$2,823

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 20. SHARE CAPITAL (continued)

The following changes in the issued share capital of the Company took place in May 2002:

- (a) The Company issued and allotted an aggregate of 35,413,282 new ordinary shares of HK\$0.01 each at HK\$0.4924 per share as a result of the exercise of the conversion rights of the Company's convertible note.
- (b) The warrant holder of subscription rights to subscribe for 13,045,000 ordinary shares of HK\$0.01 each had exercised their rights at HK\$0.0155 per share.
- (c) The Company made a bonus issue of 11,918 new ordinary shares of HK\$0.01 each, credited as fully paid at par to the then existing shareholders. This bonus issue was funded by the capitalisation of a sum of HK\$119 standing to the credit of the Company's share premium account.
- (d) Pursuant to the placing and underwriting agreement dated 10th May, 2002, the Company offered 52,020,000 new ordinary shares for subscription at a price of HK\$0.55 per share. The net proceeds from this subscription were used for the Company's business expansion and to provide additional general working capital.
- (e) 4,000,000 new ordinary shares were issued at a price of HK\$0.55 per share pursuant to the exercise of over-allotment options granted to the placing underwriters. The net proceeds from this subscription were used for the Company's business expansion and to provide additional general working capital.

All the ordinary shares issued during the year rank *pari passu* with the then existing ordinary shares in all respects.

## 21. WARRANTS

In May 2002, the Company issued warrants to a substantial shareholder of the Company, QPL International Holdings Limited, conferring rights to subscribe 7,676,745 ordinary shares of HK\$0.01 each at HK\$0.01 per share exercisable during the six-month period commencing on 17th May, 2003. The issue of the warrants was approved by written resolution of the then shareholders on 20th April, 2002.



# Notes to the Financial Statements

For the year ended 31st December, 2002

## 22. SHARE OPTIONS

### (a) *Pre-listing share options*

Pursuant to the pre-listing share option scheme adopted by the Company on 20th April, 2002, the Company may grant options to any director, employee, adviser or business consultant of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company with the payment of HK\$1 per offer. Options granted are exercisable for a period not later than 10 years from the date of grant of the relevant options.

Details of the movements in the number of share options granted during the year under the Company's pre-listing share options scheme adopted on 20th April, 2002 which are exercisable from 17th November, 2002 to 29th April, 2012 are as follows:

Type of participants	Exercise price per share HK\$	Number of share options		
		Granted during the year	Cancelled during the year	Outstanding at 31.12.2002
Directors	0.55	3,750,000	–	3,750,000
Adviser	0.55	750,000	–	750,000
Employees	0.55	7,413,000	1,500,000	5,913,000
		11,913,000	1,500,000	10,413,000

### (b) *Post-listing share options*

Pursuant to the post-listing share option scheme adopted by the Company on 20th April, 2002, the Company may grant options to any director, employee, advisor or business consultant of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company with the payment of HK\$1 per offer. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares. The post-listing share options are exercisable for a period not later than 10 years from the date of grant.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 22. SHARE OPTIONS (continued)

### (b) Post-listing share options (continued)

Details of the movements in the number of share options granted during the year under the Company's post-listing share options scheme which are exercisable from 12th July, 2003 to 11th July, 2012 are as follows:

Type of participants	Exercise price per share HK\$	Number of share options		
		Granted during the year	Cancelled during the year	Outstanding as at 31.12.2002
Employees	0.384	5,277,000	270,000	5,007,000

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted during the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 23. RESERVES

	Share premium HK\$'000	Deficit HK\$'000	Total HK\$'000
<b>THE COMPANY</b>			
At 1st January, 2001	3,149	(76)	3,073
Premium arising on issue of shares	19,357	–	19,357
Expenses incurred in connection with the issue of shares	(946)	–	(946)
Capitalisation on bonus issue of shares	(1,501)	–	(1,501)
Net loss attributable to shareholders	–	(23)	(23)
At 31st December, 2001	20,059	(99)	19,960
Exercise of conversion rights of a convertible note	17,084	–	17,084
Exercise of warrants	73	–	73
Issue of new shares on listing	30,251	–	30,251
Expenses incurred in connection with the issues of shares	(11,643)	–	(11,643)
Net loss attributable to shareholders	–	(24,558)	(24,558)
At 31st December, 2002	55,824	(24,657)	31,167

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 24. MAJOR NON-CASH TRANSACTIONS

During the year, the amount due from a related business agent of HK\$5,020,000 in which a director of the Company Mr. Chan Sek Keung, Ringo has a beneficial interest, was satisfied by the right to use certain property, plant and equipment of HK\$2,081,000, and prepaid maintenance charges of HK\$2,939,000 held by this related business agent.

In April 2002, the redemption monies of the convertible note of HK\$17,438,000 were used to subscribe for the convertible bonds detailed in note 17.

## 25. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group has an unrecognised deferred tax asset of HK\$1,093,000 (2001: HK\$655,000) which represents the tax effect of timing differences arising as a result of tax losses available to set off against future assessable profits. This deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

## 26. OPERATING LEASE COMMITMENTS

While the Company had no outstanding operating lease commitments at the balance sheet date, its subsidiaries were committed to make the following minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	<b>THE GROUP</b>	
	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Within one year	<b>2,643</b>	2,587
In the second to fifth year inclusive	<b>2,320</b>	2,764
	<b>4,963</b>	5,351

## 27. CAPITAL COMMITMENTS

	<b>THE GROUP</b> <b>2002 &amp; 2001</b> <i>HK\$'000</i>
Capital expenditure in respect of investment in the PRC contracted for but not provided in the financial statements	769

The Company had no capital commitments at the balance sheet date.

# Notes to the Financial Statements

For the year ended 31st December, 2002

## 28. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given corporate guarantees totalling HK\$103,190,000 (2001: Nil) to banks to secure the credit facilities granted to its subsidiaries.

## 29. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5%, of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

## 30. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned by the Company, at 31st December, 2002 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued/ registered capital	Principal activities
北京威發新世紀信息技術有限公司 (Beijing Wafer New Century Information Technology Co., Ltd.)	PRC for a term of 15 years commencing 12th January, 2001 <sup>#</sup>	US\$1,500,000	Operation of businesses in network infrastructure, provision of network professional services and sale of proprietary network software
上海滬威網絡系統有限公司 (Wafer Network Systems (Shanghai) Ltd. Co.)	PRC for a term of 15 years commencing 28th July, 1999 <sup>#</sup>	US\$210,000	Operation of businesses in network infrastructure, provision of network professional services and sale of proprietary network software

## Notes to the Financial Statements

For the year ended 31st December, 2002

### 30. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued/ registered capital	Principal activities
Wafer Systems (China) Limited	Hong Kong	HK\$10,000	Operation of businesses in network infrastructure, provision of network professional services and sale of proprietary network software
Wafer Systems Holdings Limited*	Hong Kong	HK\$10,000	Investment holding
Wafer Systems (Hong Kong) Limited	Hong Kong	HK\$10,000	Operation of businesses in network infrastructure, provision of network professional services and sale of proprietary network software
威發(西安)軟件有限公司 (Wafer (Xi'an) Software Co., Ltd.)	PRC for a term of 15 years commencing 26th July, 2001 <sup>#</sup>	US\$100,950	Research and development

<sup>#</sup> These are foreign investment enterprises established in PRC.

\* Directly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

## Financial Summary

	26.11.1998 to 31.12.1999 <i>HK\$'000</i>	1.1.2000 to 31.12.2000 <i>HK\$'000</i>	1.1.2001 to 31.12.2001 <i>HK\$'000</i>	<b>1.1.2002 to 31.12.2002 <i>HK\$'000</i></b>
<b>RESULTS</b>				
Turnover	124,328	85,339	149,579	<b>180,333</b>
Profit (loss) before taxation	(7,162)	474	8,198	<b>(6,400)</b>
Taxation	(1,193)	403	(191)	<b>551</b>
Net profit (loss) attributable to shareholders	(8,355)	877	8,007	<b>(5,849)</b>

**As at 31st December,**

	1999 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	<b>2002 <i>HK\$'000</i></b>
<b>ASSETS AND LIABILITIES</b>				
Total assets	54,901	70,495	103,280	<b>165,763</b>
Total liabilities	(59,875)	(74,591)	(80,915)	<b>(112,437)</b>
(Deficiency) balance of shareholders' funds	(4,974)	(4,096)	22,365	<b>53,326</b>

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** the annual general meeting of Wafer Systems Limited (the “Company”) will be held at the Conference Room, 28th Floor, Cosco Tower, Grand Millennium Plaza, 183 Queen’s Road Central, Hong Kong on Friday, 25 April, 2003 at 3:30 p.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements and reports of the directors and auditors for the year ended 31 December, 2002;
2. To re-elect a director Mr. Pang Hing Chung, Alfred retiring by rotation;
3. To re-appoint auditors and to authorize the board of directors to fix their remuneration;
4. As special business to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

### ORDINARY RESOLUTIONS

(1) **“THAT:**

- (a) subject to paragraph (c) of this resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, 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 capital of the Company and to make or grant, whether conditionally or unconditionally, offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into shares in the Company) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorize the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into the shares in the Company) which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) by the directors of the Company 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 any 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 officers and/or employees of the Company and/or any of its subsidiaries of shares in the Company or rights to acquire shares in the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in the Company in accordance with the Articles of Association of the Company in force from time to time; or (iv) any issue of shares in the Company upon the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities

## Notice of Annual General Meeting

which carry rights to subscribe for or are convertible into shares in the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing 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 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 or varying the authority given to the directors of the Company by this resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company 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 recognized regulatory body or any stock exchange in any territory applicable to the Company).”

- (2) **“THAT:**

- (a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the capital of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares in the Company may be listed and recognized by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, subject to and in accordance with the rules and regulations of the Securities and Future Commission, The Stock Exchange of Hong Kong Limited, the Companies Law of the Cayman Islands and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;



## Notice of Annual General Meeting

(b) the aggregate nominal amount of shares in the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly;

(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 other 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 or varying the authority given to the directors of the Company by this resolution.”

(3) **“THAT:**

Conditional upon resolution Nos. (1) and (2) set out in item 4 of the notice convening this meeting being passed, the general mandate granted to the directors of the Company to allot, issue and deal with additional shares in the Company pursuant to the said resolution No. (1) be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors of the Company pursuant to the said resolution No. (2), provided that the amount of shares so repurchased by the Company shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company on the date of this resolution.”

(4) **“THAT:**

“The refreshment of the scheme limit of the Company’s share option scheme adopted on 20 April 2002 and all other share option schemes of the Company, up to 10% of the number of shares in the capital of the Company in issue as at the date of passing this resolution (the “New Scheme Limit”) be and is hereby approved and any director of the Company be and is hereby authorised to do such acts and execute such documents to effect the New Scheme Limit.”

By Order of the Board  
**Chan Sek Keung, Ringo**  
*Chairman and Chief Executive Officer*

Hong Kong, 26th March, 2003

## Notice of Annual General Meeting

*Notes:*

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint not more than two proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notially certified copy thereof, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 48 hours before the time appointed for the meeting (or any adjournment thereof).
3. With regard to ordinary resolution No. (2) set out in item 4 of this notice, an explanatory statement containing information regarding the repurchase by the Company of its own shares will be sent to shareholders of the Company together with the 2002 Annual Report of the Company.