WAFER SYSTEMS LIMITED
威發系統有限公司

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT 2003
FOR THE SIX MONTHS ENDED 30 JUNE 2003

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

TO OUR SHAREHOLDERS

The board (the "Board") of Directors of the Company ("Director(s)") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2003 (the "Review Period") together with the comparative unaudited figures for the corresponding period in 2002.

Despite the outbreak of the Severe Acute Respiratory Syndrome ("SARS") between April and June which disrupted normal business operations in the Greater China region and slowed the pace of recovery in the network infrastructure industry, the Group achieved healthy growth in turnover and profit compared to the same period last year. Both Network Infrastructure business and Professional Services business turned around and contributed to profits while Network Software business started to produce better revenue.

In order to capitalize on the business opportunities resulting from the outbreak of SARS, the Group launched its multipoint video conferencing system during the Review Period. The system's capability to serve clients across geographic boundaries brought in additional revenue for the Group in this challenging business environment.

BUSINESS OVERVIEW AND REVIEW

Financial Review

Leveraging its reputation for quality and customised services in the networking industry, the Group achieved satisfactory financial results for the six months ended 30 June 2003 notwithstanding the challenging business environment. Turnover increased by 28% to approximately HK$94.2 million for the Review Period (2002: HK$73.4 million).

As a result of its continued successes in cost management and leveraging the benefits generated by its scaled-up activities, the Group reported a net profit of approximately HK$1.1 million, a significant turnaround from the loss of approximately HK$4.7 million recorded in the corresponding period in 2002.

Mainland China continued to be the Group's major market during the Review Period, accounting for 90% (2002: 88%) of the total turnover with the remaining 10% (2002: 12%) generated in Hong Kong. Benefiting from the industry recovery in Mainland China market together with the increased investment from multinational enterprises and telecommunication giants, the three core businesses achieved satisfactory growth. The Professional Services business achieved a 119% leap in its turnover to reach approximately HK$12.9 million (2002: HK$5.9 million). The Network Infrastructure business recorded substantial growth in turnover of 20% to approximately HK$81.0 million (2002: HK$67.4 million). The turnover of the Network Software business also enjoyed steady growth during the Review Period.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

Business Review

During the Review Period, the Network Infrastructure business continued to provide the Group's main revenue stream, accounting for 86% (2002: 92%) of total turnover. As a result of its experience in network infrastructure and the telecommunications industry, the Group assisted telecommunications players in the integration of their 2.5G and CDMA telephone networks with the Internet. These projects cover seven provinces and cities including Gansu, Guangxi, Guangdong, Hunan, Jilin, Xinjiang and Shenzhen in Mainland China.

With regards to its Next Generation Network ("NGN") project, the Group continued to partner with Cisco Systems Inc. ("Cisco"), venturing into the second phase of construction for NGN related infrastructure for a leading telecommunications player in Sichuan province. This move strengthens the Group's first mover and leading position in this rapidly emerging market of huge potential.

The Group also performed remarkably well in the network optimization and security solutions businesses. During the Review Period, the Group's sales of security solution project more than doubled to over HK$3 million. A number of large-scale organizations in Hong Kong have demonstrated their confidence in the Group by adopting the Group's tailored solutions in order to safeguard their business operations. These clients include the Hospital Authority, the Information Technology Services Department, the Vocational Training Council and Hutchison Global Centre Limited.

The Professional Service business has continued to report promising growth as the Group has successfully increased its share of the brisk demand from Multinational Corporations ("MNCs") and growing domestic enterprises, especially in the banking and telecommunications sectors. The Group has already secured its reputation with mission critical corporations, and has won contracts from the Industrial and Commercial Bank of China and China Unicom to provide its expert services, thus further strengthening its market foothold.

The software business maintained a steady growth pattern during the Review Period. The Group's self-developed NextG IP Billing Software continues to receive positive responses from the market, as evidenced by the contracts signed with several telecommunication providers in Canada and Japan. Leveraging its sophisticated software products, the Group has also been able to further extend its foothold outside the Greater China region.

PROSPECTS

Having experienced the most significant downturn in the information technology industry together with the consolidation of the telecommunications sector in China in 2002, the Group has emerged stronger. More importantly, significant awareness has been established in the market that the Group is a leading provider of Network Infrastructure, Professional Services and Network Software to telecommunications players, MNCs as well as domestic enterprise clients in Mainland China.

According to statistics compiled by the Ministry of Information Industry (MII), China's telecommunications industry hit a high note in the first half of 2003, earning revenues of RMB219.97 billion (US$26.5 billion), up 12.1% over the previous year. Experts attribute the promising results to the government's efforts to enhance the infrastructure and restructure the telecommunications industry. The Group believes that this positive trend will continue and that it is well positioned to benefit from this market recovery particularly with its successful NGN project in Sichuan. As a result of its ability to provide one-stop services including NGN related infrastructure, professional services and software, the Group is aggressively negotiating with a number of major telecommunications players, further consolidating its leadership position in the NGN arena.

In addition to its NGN related projects, the Group expects MNCs to continue generating stable revenues. Although MNCs were stalled by SARS between April and June 2003, most SARS-affected sectors are now rebounding with strong momentum. Therefore, the Group remains confident that MNCs will continue to gear up their facilities in information technology in the second half of the year. In order to capture this business opportunity, the Group is proactively forming alliances with various suppliers, including NTT, Motorola and INFONET, in order to broaden further its client base and to enlarge its product range and to provide the Group with recurring and increasing business opportunities.

As it is well-positioned to take advantage of the economic upturn and its scaled up operations, the Group is reinforcing its capabilities in the three synergistic businesses, through the forming of strategic alliances, in order to introduce advanced products and technologies. More importantly, it will place extra effort into the further penetration of both the MNCs and local domestic markets. Although the business environment is still challenging, the Group believes that it is fully equipped and ready to take advantage of the forthcoming opportunities.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's actual business progress during the Review Period with the business objectives for the same period as set out in the prospectus of the Company dated 10 May 2002 (the "Prospectus"). The Group reviews its business objectives and strategies on an ongoing basis and makes adjustments as necessary.

Business objectives for the Review Period as set out in the Prospectus	**Actual business progress in the Review Period**
Business Development	
Establish one additional sales and marketing presence in Nanjing, Mainland China.	An additional sales and marketing presence was established in Nanjing, Mainland China in March.
Commence the operations of a subsidiary or an office of the Group in Taiwan.	The plan was deferred due to the unclear political and economic environment in the region.

Business objectives for the Review Period as set out in the Prospectus	Actual business progress in the Review Period
Product Development and Service Launches	
Network Infrastructure	
Complete and launch phase 3 of IP Multimedia Collaboration Solutions.	The Group has completed phase 3 of Navipresenter, the IP Multimedia Collaboration Solutions, and launched the product in July.
Further increase its market share by promoting Infrastructure Solutions and Network Security Solutions, as well as Multimedia Solutions by adopting self-developed software and integrating with video conferencing equipment supplied by third parties.	The Group has successfully increased its revenues generated from the Network Infrastructure business, especially for its network optimization and security solutions businesses as compared with the same period of 2002.
Professional Services	
Further increase its market share by promoting Customer Services, Expert Services and Outsourcing Services.	The Group has recorded a dramatic growth in revenues generated from the Professional Services business.
Network Software	
Complete the research and development and launch phase 2 of the Network Management Software.	The Group launched phase 2 of the Network Management Software.
Further increase its market share by promoting the latest version of the NextG IP Billing Software.	The Group has recorded a steady growth in Network Software revenues and successfully signed contracts with several telecommunications providers in Canada and Japan.
Complete and launch the 2nd version of OSS/BSS Software.	The Group completed and launched the 2nd version of OSS/BSS Software.
Complete and launch phase 2 of the Network Management Software.	The Group completed and launched phase 2 of Network Management Software.
Commence the research and development of the 3rd version of OSS/BSS Software.	The Group has commenced the research and development of the 3rd version of OSS/BSS Software.
Commence the research and development of the 3rd version of Network Management Software.	The Group has commenced the research and development of the 3rd version of Network Management Software.
Continue the research and development of the NextG IP Billing Software.	The Group continues the research and development of the NextG IP Billing Software.
Sales and Marketing	
Promote self-developed software in Taiwan and further enhance the sales network in Greater China and Southeast Asia.	These were deferred due to the unclear political and economic environment in the region.
Increase efforts in brand building of the Group for its three business segments through comprehensive marketing campaigns in Mainland China.	The Group's increased efforts on brand building have resulted in higher revenue for the three business segments.

Use of Proceeds from IPO

The net proceeds raised from the new issue of shares by way of placing in May 2002 (the "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 30 June 2003
	Total	Up to 30 June 2003	
	(in HK$ million)	*(in HK$ million)*	*(in HK$ million)*
Research and development	6	2.7	3.8
Expansion of geographical establishments	4	1.9	0.3
Establishment of network monitoring center	3	1.4	1.0
Sales and marketing	2	0.9	0.7
Working capital	4	4.0	4.0
Total	19	10.9	9.8

The remaining proceeds of approximately HK$9.4 million were placed with licensed banks in Hong Kong and Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, Financial Resources and Capital Structure

During the six months ended 30 June 2003, the Group continued to adopt conservative policies in cash and financial management and maintained a healthy position. Surplus financial resources were mainly kept as cash and placed on interest-bearing deposits to acquire banking facilities and serve as working capital. As at 30 June 2003, the Group had net current assets of approximately HK$49.9 million (31 December 2002: HK$53.1 million) and a current ratio of 1.64 (31 December 2002: 1.53). The improvement in liquidity was mainly due to significant reductions of inventories, trade debtors as well as trade and other payables.

The Group generally financed its operations and serviced its debts with cash generated from its business operations, banking facilities, convertible bonds and the net proceeds from the Placing. As at 30 June 2003, the Group had bank balances and cash of approximately HK$22.5 million (31 December 2002: HK$14.4 million), pledged bank deposits of approximately HK$15.3 million (31 December 2002: HK$19.9 million), total bank borrowings of approximately HK$42.4 million (31 December 2002: HK$40.7 million) which were payable within one year, and convertible bonds of approximately HK$15.1 million (31 December 2002: HK$18.7 million) of which approximately HK$8 million (31 December 2002: HK$7.4 million) was due within one year.

The Group also had banking facilities of approximately HK$89.2 million (31 December 2002: HK$102.2 million), out of which approximately HK$48.4 million (31 December 2002: HK$59.4 million) were utilized. Taking into account its existing financial resources, the Group believes it has sufficient working capital for its current requirements.

During the Review Period, the Company issued 7,676,745 new ordinary shares at the par value of HK$0.01 each for cash to QPL International Holdings Limited ("QPL") on its exercise of the warrants granted. This allotment took the total number of issued shares of the Company to 289,944,745.

As at 30 June 2003, all assets and liabilities were denominated in U.S. dollars, Hong Kong dollars and Renminbi.

Acquisitions, Disposals and Significant Investment

Except for the disposal of the minor investment set out in the "Financial Information" in this report, the Group had no significant acquisitions, disposals or investments during the Review Period.

Segmental Information

Detailed segmental information of the Group during the Review Period is set out in note 3 of the "Financial Information" in this report.

Employee Information

As at 30 June 2003, the Group had 131 employees (30 June 2002: 164 employees) comprising 23 employees (30 June 2002: 28 employees) based in Hong Kong and 108 employees (30 June 2002: 136 employees) based in Mainland China. The Group continues to provide remuneration packages to employees in accordance with 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 option scheme and staff training programs to employees.

Charges on Group Assets

As at 30 June 2003, the Group had pledged deposits of approximately HK$15.3 million (31 December 2002: HK$18.4 million) to secure its general banking facilities.

Save as disclosed above, the Group did not have any significant charges on assets as at 30 June 2003.

Gearing Ratio

As at 30 June 2003, the Group had a gearing ratio of approximately 5.1% (non-current liabilities over total assets) as compared with 6.8% as at 31 December 2002.

Foreign Exchange Exposure

For the six months ended 30 June 2003, the Group generated revenue and incurred costs and expenses mainly in U.S. dollars, Hong Kong dollars or Renminbi. As the exchange rates of these currencies have been stable, no hedging or similar instruments have been implemented.

Order Book and Prospects for New Business

As at 30 June 2003, the Group had contracts on hand for sales amounting to approximately HK$13.8 million (2002: HK$17.5 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.

Contingent Liabilities

Except for those commitments and contingent liabilities set out in the "Financial Information" in this report, the Group had no other significant contingent liabilities as at 30 June 2003.

Future Plans for Investments or Capital Assets and Sources of Funding

With the exception of those plans set out in the Prospectus, there is no plan for any significant investment or acquisition of capital assets.

FINANCIAL INFORMATION

Condensed Consolidated Income Statement

		(Unaudited) For the three months ended 30 June		**(Unaudited) For the six months ended 30 June**	
		2003	2002	**2003**	2002
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**36,085**	49,716	**94,198**	73,376
Other operating income		**49**	81	**88**	159
Materials and equipment		**(26,224)**	(39,211)	**(69,743)**	(55,186)
Staff costs		**(3,964)**	(4,479)	**(8,121)**	(9,394)
Depreciation and amortization		**(1,434)**	(1,115)	**(2,819)**	(2,185)
Other operating expenses		**(3,506)**	(4,709)	**(10,754)**	(9,206)
Profit (loss) from operations	*4*	**1,006**	283	**2,849**	(2,436)
Finance Costs		**(956)**	(725)	**(1,784)**	(1,599)
Profit (loss) before taxation		**50**	(442)	**1,065**	(4,035)
Taxation	*5*	**–**	(572)	**–**	(656)
Net profit (loss) attributable to shareholders		**50**	(1,014)	**1,065**	(4,691)
Earnings (loss) per share					
– Basic (cents)	*6*	**0.02**	(0.44)	**0.37**	(2.30)
– Diluted (cents)	*6*	**N/A**	N/A	**N/A**	N/A

Condensed Consolidated Balance Sheet

	Note	(Unaudited) As at 30 June 2003 HK$'000	(Audited) As at 31 December 2002 HK$'000
Non-current assets			
Property, plant and equipment	7	**5,600**	5,550
Software products development costs		**5,972**	5,552
Investments in securities		**–**	400
		11,572	11,502
Current assets			
Inventories		**10,992**	22,740
Trade and other receivables	8	**78,643**	97,161
Pledged bank deposits		**15,311**	19,948
Bank balances and cash		**22,489**	14,412
		127,435	154,261
Current liabilities			
Trade and other payables	9	**26,901**	52,531
Taxation		**196**	196
Convertible bonds maturing within one year	10	**8,021**	7,363
Short-term bank loans		**21,166**	–
Trust receipt and import loans		**21,213**	40,697
Bank overdrafts		**–**	356
		77,497	101,143
Net current assets		**49,938**	53,118
Total assets less current liabilities		**61,510**	64,620
Non-current liabilities			
Convertible bonds maturing after one year	10	**7,042**	11,294
Net assets		**54,468**	53,326
Capital and reserves			
Share capital	11	**2,900**	2,823
Reserves		**51,568**	50,503
Shareholders' funds		**54,468**	53,326

Condensed Consolidated Cash Flow Statement

	(Unaudited) Six months ended 30 June 2003 *HK$'000*	(Unaudited) Six months ended 30 June 2002 *HK$'000*
Net cash generated from (used in) from operating activities	**10,576**	(5,263)
Net cash generated from (used in) investing activities	**1,476**	531
Net cash (used in) generated from financing activities	**(3,975)**	10,095
Net increase (decrease) in cash and cash equivalents	**8,077**	5,363
Cash and cash equivalents at the beginning of period	**14,412**	7,315
Cash and cash equivalents at the end of period	**22,489**	12,678
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**22,489**	12,678

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Share capital *HK$'000*	**Share premium** *HK$'000*	**Statutory surplus reserve fund** *HK$'000*	**Enterprise expansion fund** *HK$'000*	**Staff welfare fund** *HK$'000*	**Deficit** *HK$'000*	**Total** *HK$'000*
As at 1 January 2002	1,778	20,059	543	272	272	(559)	22,365
Issue of new shares to the public	560	30,251					30,811
Share issuance expenses		(11,643)					(11,643)
Exercise of warrants	131	73					204
Conversion of convertible note	354	17,084					17,438
Loss for the six months ended 30 June 2002						(4,691)	(4,691)
As at 30 June 2002	2,823	55,824	543	272	272	(5,250)	54,484
As at 1 January 2003	2,823	55,824	1,003	502	502	(7,328)	53,326
Exercise of warrants	77						77
Profit for the six months ended 30 June 2003						1,065	1,065
As at 30 June 2003	2,900	55,824	1,003	502	502	(6,263)	54,468

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(1) Basis of Presentation

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

The principal accounting policies and basis of preparation adopted for the preparation of these condensed financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2002, except for the Group's adoption of SSAP 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants. The adoption of this SSAP has not had any material effect on the results for the current and prior period.

Certain comparative figures have been reclassified to conform with the current period's presentation.

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

(2) Turnover and revenue

An analysis of the Group's turnover and revenue recognized for the three and the six months ended 30 June 2003 together with the comparative figures for the corresponding period in 2002 is as follows:

	For the three months ended 30 June		**For the six months ended 30 June**	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Network infrastructure	**30,716**	47,147	**81,034**	67,351
Professional services	**5,069**	2,429	**12,864**	5,885
Network software	**300**	140	**300**	140
Total turnover	**36,085**	49,716	**94,198**	73,376
Interest income	**49**	81	**88**	159
Total revenue	**36,134**	49,797	**94,286**	73,535

(3) Segment Information

a. Business segment

An analysis of the Group's turnover and results by business segment is as follows:

	(Unaudited) For the six months ended 30 June 2003		(Unaudited) For the six months ended 30 June 2002	
	Turnover	**Results**	Turnover	Results
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Network infrastructure	**81,034**	**2,575**	67,351	(1,635)
Professional services	**12,864**	**1,386**	5,885	(419)
Network software	**300**	**(866)**	140	(515)
	94,198	**3,095**	73,376	(2,569)
Other operating income		**88**		159
Central administrative expenses		**(334)**		(26)
Profit (loss) from operations		**2,849**		(2,436)
Finance costs		**(1,784)**		(1,599)
Profit (loss) before taxation		**1,065**		(4,035)
Taxation		**–**		(656)
Net profit (loss) attributable to shareholders		**1,065**		(4,691)

b. Geographical segment

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

	(Unaudited) For the six months ended 30 June	
	2003	2002
	HK$'000	*HK$'000*
Hong Kong	**9,412**	8,576
PRC	**84,786**	64,800
	94,198	73,376

(4) Profit (loss) from operations

Profit (loss) from operations has been arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amortization of software products development costs	**565**	302	**1,153**	527
Depreciation of property, plant and equipment	**869**	813	**1,666**	1,658
Staff costs (including directors' remuneration)	**3,964**	4,479	**8,121**	9,394
Loss on disposal of investment	**360**	–	**360**	–

(5) Taxation

Taxation charges consisted of:

	For the three months ended 30 June		For the six months ended 30 June	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current taxation –				
Hong Kong profits tax	**–**	332	**–**	390
PRC income tax	**–**	240	**–**	266
	–	572	**–**	656

No provision for Hong Kong profits tax has been made during the Review Period as the Group had no assessable profit arising in or derived from Hong Kong (2002: 16% on estimated assessable profits). PRC income tax has not been provided during the Review Period as the Company's PRC subsidiaries had no assessable profit (2002: 15% on estimated assessable profits) or were within their tax exemption period. No deferred taxation assets were recognised as at 30 June 2003 and 2002 as their recoverability were uncertain.

(6) Earnings (loss) per share

The calculation of basic earnings (loss) per share for the three months and the six months ended 30 June 2003 is based on the unaudited net profit attributable to shareholders of approximately HK$50,000 and approximately HK$1,065,000 (three months and six months ended 30 June 2002: net loss attributable to shareholders of approximately HK$1,014,000 and approximately HK$4,691,000 respectively) and on the weighted average number of approximately 285,980,000 shares and approximately 284,134,000 shares respectively (2002: approximately 230,603,000 shares and approximately 204,342,000 shares respectively) in issue during the period.

Diluted earnings (loss) per share has not been presented for the three months and six months ended 30 June 2003 and its corresponding period in 2002 since the effect is anti-dilutive

(7) Property, plant and equipment

Movements in property, plant and equipment were:

	Computer equipment	**Furniture, fixtures and office equipment**	**Motor vehicle**	**Tools**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost					
As at 1 January 2003	7,947	1,459	272	2,763	12,441
Additions	1,054	186	166	1,667	3,073
Disposals	(1,077)	(26)	–	(392)	(1,495)
As at 30 June 2003	7,924	1,619	438	4,038	14,019
Accumulated depreciation					
As at 1 January 2003	4,736	883	171	1,101	6,891
Additions	909	267	32	1,133	2,341
Disposals	(530)	–	–	(283)	(813)
As at 30 June 2003	5,115	1,150	203	1,951	8,419
Net book value					
As at 30 June 2003	2,809	469	235	2,087	5,600
As at 31 December 2002	3,211	576	101	1,662	5,550

(8) Trade and other receivables

	As at 30 June 2003 HK$'000	As at 31 December 2002 HK$'000
Trade receivables	**64,028**	78,919
Other receivables	**14,615**	18,242
	78,643	97,161

There was no change on the Group's credit policies since 31 December 2002.

The aged analysis of trade receivables is as follows:

Age	As at 30 June 2003 HK$'000	As at 31 December 2002 HK$'000
0 to 90 days	**24,667**	57,776
91 to 180 days	**15,427**	16,440
181 to 365 days	**24,739**	4,323
over 365 days	**2,020**	3,611
	66,853	82,150
Less: allowance for bad and doubtful debts	**(2,825)**	(3,231)
	64,028	78,919

(9) Trade and other payables

	As at 30 June 2003 HK$'000	As at 31 December 2002 HK$'000
Trade payables	**16,302**	43,926
Other payables	**10,599**	8,605
	26,901	52,531

The aged analysis of trade payables is as follows:

Age	As at 30 June 2003 HK$'000	As at 31 December 2002 HK$'000
0 to 90 days	**11,345**	40,398
91 to 180 days	**804**	3,287
over 180 days	**4,153**	241
	16,302	43,926

(10) Convertible bonds

	As at 30 June 2003 HK$'000	As at 31 December 2002 HK$'000
Within 1 year	**8,021**	7,363
Between 1 to 2 years	**7,042**	8,673
Between 2 to 5 years	**–**	2,621
	15,063	18,657

In May 2003, the Company redeemed a convertible bond at its face value of HK$4,188,100 on its maturity date.

(11) Share Capital

	Number of shares '000	Nominal value HK$'000
Authorized		
– ordinary shares of HK$0.01 each	500,000	5,000
Issued and fully paid		
as at 1 January 2003	282,268	2,823
exercise of warrants	7,677	77
	289,945	2,900

In May 2003, QPL, a substantial shareholder of the Company, exercised warrants issued by the Company to subscribe 7,676,745 ordinary shares of HK$0.01 each at HK$0.01 per share.

(12) Operating lease commitments

As at 30 June 2003, the Group had operating lease commitments of approximately HK$3,532,000 (31 December 2002: HK$4,963,000), out of which approximately HK$2,176,000 was payable within 1 year (31 December 2002: HK$2,643,000).

(13) Contingent liabilities

As at 30 June 2003, the Company has given corporate guarantees totalling approximately HK$76 million (31 December 2002: HK$103 million) to banks to secure the credit facilities granted to its subsidiaries.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARE CAPITAL

As at 30 June 2003, the interests and short positions of the Directors, chief executive and their respective associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by Directors as referred to Rule 5.40 of the GEM Listing Rules, were as follows:

(i) Long positions in shares in the Company

Name of Director	Capacity	Number of shares held: Personal interest	Family interest	Corporate interest	Other interest	Total Interest in shares	Approximate Percentage of the Company's issued share capital
Mr. Chan Sek Keung, Ringo	Beneficial owner	1,556,000	–	56,400,000 *(Note)*	–	57,956,000	19.99%

Note: The corporate interest of Mr. Chan Sek Keung, Ringo in the shares in the Company is held by Woodstock Management Limited ("Woodstock"), which is a company wholly-owned by Mr. Chan Sek Keung, Ringo.

(ii) Long positions in the underlying shares in the Company

Name of Director	Capacity	Unlisted Options *(Note)* (Cash settled equity derivatives) As at 30 June 2003: Number of Pre-IPO Options (granted on 30 April 2002)	Number of Post-IPO Options (granted on 20 February 2003)	Aggregate interest
Mr. Chan Sek Keung, Ringo	Beneficial owner	3,000,000	1,200,000	4,200,000
Mr. Pang Hing Chung, Alfred	Beneficial owner	750,000	750,000	1,500,000
Mr. Alasdair Gordon Nagle	Beneficial owner		375,000	375,000
Ms. Clara Ho	Beneficial owner		375,000	375,000
Mr. Tsoi Tai Wai, David	Beneficial owner		750,000	750,000
Mr. Kwan Kit Tong	Beneficial owner		375,000	375,000

Note: Each of these Directors' interests represents their long positions in the underlying shares of the Company by virtue of options granted to the Directors pursuant to a pre-IPO share option scheme and a post-IPO share option scheme both adopted by the Company on 20 April 2002 (further details are set out under the section headed "Share Option Schemes").

Save as disclosed above, as at 30 June 2003, none of the Directors nor the chief executive of the Company or their respective associates had any interest or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the minimum standards of dealing by Directors as referred to Rule 5.40 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS AND OTHER SHAREHOLDERS WHOSE INTEREST RECORDED UNDER SECTION 336 OF THE SFO

The register of substantial shareholders and other persons whose interest maintained under section 336 of the SFO shows that as at 30 June 2003, the Company had been notified of the following shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Long positions in the Shares in the Company

Name of shareholder	*Notes*	Capacity	Number of shares	Approximate Percentage of the Company's issued share capital
Woodstock	*(a)*	Beneficial owner	56,400,000	19.45%
Mr. Chan Sek Keung, Ringo	*(b)*	Beneficial owner	1,556,000	0.54%
		Interest of a controlled corporation	56,400,000	19.45%
The Applied Research Council ("ARC")	*(c)*	Beneficial owner	48,460,000	16.71%
HSBC Private Equity Technology (Asia) Limited	*(d)*	Investment manager	48,460,000	16.71%
HSBC Private Equity (Asia) Limited	*(d)*	Interest of a controlled corporation	48,460,000	16.71%
North 22 Nominees Limited		Beneficial owner	36,900,000	12.73%
Mr. Ng Lai Yick	*(e)*	Interest of a controlled corporation	36,900,000	12.73%
QPL	*(f)*	Beneficial owner	35,456,745	12.23%
Mr. Li Tung Lok	*(g)*	Interest of a controlled corporation	35,456,745	12.23%
Madam Su Ching Wah	*(g)*	Interest of spouse	35,456,745	12.23%
North 22 Capital Partners Inc.		Beneficial owner	19,652,000	6.78%

Notes:

(a) These shares are held by Woodstock, a company which is wholly-owned by Mr. Chan Sek Keung, Ringo.

(b) Mr. Chan Sek Keung, Ringo is deemed to be interested in the 56,400,000 shares held by Woodstock as Woodstock is wholly-owned by Mr. Chan Sek Keung, Ringo.

(c) In additional to these shares, ARC also holds 4 convertible bonds issued by the Company with a face value of HK$15,860,000 in aggregate. If these 4 convertible bonds were fully converted on their respective maturity dates, ARC would hold an additional 30,112,018 shares in the Company.

(d) HSBC Private Equity Technology (Asia) Limited is deemed to be interested in these shares as the Company is the investment manager of ARC.

HSBC Private Equity (Asia) Limited is deemed to be interested in these shares as HSBC Private Equity Technology (Asia) Limited is its wholly-owned subsidiary.

(e) Mr. Ng Lai Yick is deemed to be interested in these shares as North 22 Nominees Limited is beneficially wholly-owned by him.

(f) QPL has exercised 7,676,745 warrants in the Company to subscribe for 7,676,745 shares in May 2003. As a result, the shareholding of QPL increased from 27,780,000 shares to 35,456,745 shares.

(g) Mr. Li Tung Lok is the controlling shareholder of QPL and is deemed to be interested in the 35,456,745 shares held by QPL.

Madam Su Ching Wah is the spouse of Mr. Li Tung Lok and is deemed to be interested in the 35,456,745 shares held by QPL.

Long positions in the underlying shares in the Company

Name of Shareholder	*Notes*	Capacity	Amount of convertible bonds of the Company issued	Number of underlying shares
ARC	*(a)*	Beneficial Owner	HK$15,860,000	30,112,018
HSBC Private Equity Technology (Asia) Limited	*(b)*	Investment Manager	HK$15,860,000	30,112,018
HSBC Private Equity (Asia) Limited	*(b)*	Interest of a controlled corporation	HK$15,860,000	30,112,018

Notes:

(a) Pursuant to an agreement dated 26 April 2002 entered into among ARC, the Group and Woodstock, ARC would subscribe for five convertible bonds to be issued by the Company with respective face values of HK$4,188,100, HK$3,400,000, HK$4,800,000, HK$4,660,000 and HK$3,000,000. In May 2003, the Company has redeemed 1 convertible bonds of face value of HK$4,188,100 at its maturity date leading to ARC's underlying interests in Company's shares decreased from 38,063,603 shares to 30,112,018 shares.

(b) HSBC Private Equity Technology (Asia) Limited is deemed to be interested in 30,112,018 underlying shares held by ARC as the Company is the investment manager of ARC.

HSBC Private Equity (Asia) Limited is deemed to be interested in 30,112,018 underlying shares held by ARC as HSBC Private Equity Technology (Asia) Limited is its wholly-owned subsidiary.

Save as disclosed above, as at 30 June 2003, the Company had not been notified by any persons or corporation who/which had interests or short positions in the shares or underlying shares in the Company which would fall to be disclosed to the Company or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

The Company in a general meeting held on 20 April 2002 adopted both a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a post-IPO share option scheme (the "Post-IPO Share Option Scheme").

Save as disclosed below, no options granted pursuant to either the Pre-IPO Share Option Scheme or the Post-IPO Share Option Schemes had been exercised during the Review Period.

All the below-mentioned options are unlisted and represent cash settled equity derivates.

(a) Pre-IPO Share Option Scheme

One single grant of 11,913,000 shares in aggregate, was made to various participants on 30 April 2002 at an exercise price of HK$0.55 under this scheme.

No options had lapsed under the Review Period. As at 30 June 2003, options comprising an aggregate of 10,253,000 shares were outstanding, as detailed below:

Type of participants	As at 31 December 2002	Cancelled during Review Period	As at 30 June 2003
Directors	3,750,000	–	3,750,000
Adviser	750,000	–	750,000
Employees	5,913,000	160,000 *(Note)*	5,753,000
Total	10,413,000	160,000	10,253,000

Note: These options, granted to 3 employees, were cancelled according to the rules of this scheme due to the employees having left the Group

Options granted are exercisable as to (i) a maximum of 25% of the total number of options granted six months after 17 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 above outstanding options may be exercised, in accordance with the terms of the Pre-IPO Share Option Scheme, at any time during the period between 17 November 2002 and 29 April 2012, ten years from the date of grant of the options.

(b) Post-IPO Share Option Schemes

(i) The first grant of 5,277,000 shares in aggregate, was made to various participants on 12 July 2002 at an exercise price of HK$0.384 under this scheme.

No options had lapsed under the Review Period. As at 30 June 2003, options comprising an aggregate of 3,944,000 shares were outstanding, as detailed below:

Type of participants	As at 31 December 2002	Cancelled during Review Period	As at 30 June 2003
Employees	5,007,000	1,063,000 *(Note)*	3,944,000

Note: These options, granted to 17 employees, were cancelled according to the rules of this scheme due to the employees having left the Group.

The above outstanding options may be exercised, in accordance with the terms of the Post-IPO Share Option Scheme, between 12 July 2003 and 11 July 2012, ten years from the date of grant of the options.

(ii) The second grant of 7,859,000 shares in aggregate, was made to various participants on 20 February 2003 at an exercise price of HK$0.138 per share under this scheme. The exercise price represented the average of closing prices of the Company's shares on the 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$0.138.

No options had lapsed during the Review Period. As at 30 June 2003, options under this grant, comprising an aggregate of 7,807,000 shares, were outstanding, as detailed below:

Type of participants	As at 20 February 2003 (Date of grant)	Cancelled during Review Period	As at 30 June 2003
Directors	3,825,000	–	3,825,000
Adviser	300,000	–	300,000
Employees	3,734,000	52,000 *(Note)*	3,682,000
Total	7,859,000	–	7,807,000

Note: These options, granted to 4 employees, were cancelled according to the rules of this scheme due to the employees having left the Group.

The above outstanding options may be exercised in accordance with the terms of the Post-IPO Share Option Scheme between 20 February 2004 and 19 February 2013, ten years from the date of grant of the options.

Both of these 2 grants under the Post-IPO Share Option Scheme 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.

Valuation of Share Options

The Directors consider that it is inappropriate to state the value of the options granted under the Post-IPO share option scheme during the Review Period due to the following reasons:

(i) the calculation of the value of the options will be based on a number of undetermined but crucial variables 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;

(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 are of the view that the calculation on speculative assumptions would not be meaningful and would be misleading to shareholders of the Company.

COMPETITION AND CONFLICT OF INTERESTS

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

SPONSOR'S INTERESTS

As confirmed by the Company's sponsor, CSC Asia Limited (the "Sponsor"), as at 30 June 2003, neither the Sponsor nor its directors, employees and associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company, or any members of the Group.

At the time of and subsequent to the Date of Listing, the Sponsor received and will receive fees under a sponsor's agreement dated 10 May 2002 between the Company and the Sponsor in connection with services rendered and to be rendered by the Sponsor pursuant to Rules 6.01 and 17.81 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an Audit Committee on 29 October 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules and with reference to the guidelines published by the Hong Kong Society of Accountants.

The Audit Committee consists of two independent non-executive Directors, namely, Mr. Tsoi Tai Wai, David and Mr. Pang Hing Chung, Alfred and the executive Director, Mr. Chan Sek Keung, Ringo. Mr. Tsoi is the Chairman of the Audit Committee.

The Audit Committee has reviewed the draft of this report and has provided advice and comments thereon.

BOARD PRACTICES AND PROCEDURES

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 14 August 2003