



**WAFER SYSTEMS**

# **Wafer Systems Limited**

(incorporated in the Cayman Islands with limited liability)

**Annual Report  
2004**

## **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.**

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

As at the date of this report, the executive director of the Company is Mr. Chan Sek Keung, Ringo, the non-executive directors are Ms. Clara Ho, Mr. Alasdair Gordon Nagle and Mr. Kwan Kit Tong and the independent non-executive directors are Mr. Pang Hing Chung, Alfred, Mr. Tsoi Tai Wai, David and Mr. Yu Zhonghou.

*This report, for which the directors (the “Directors”) of Wafer Systems Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (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  
Mr. Yu Zhonghou

#### **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. Yu Zhonghou

#### **REMUNERATION COMMITTEE**

Mr. Tsoi Tai Wai, David *(Chairman)*  
Mr. Pang Hing Chung, Alfred  
Ms. Clara Ho

#### **ADVISORS**

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

#### **AUTHORIZED REPRESENTATIVES**

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

### **REGISTERED OFFICE**

4th Floor, Scotia Centre,  
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**

Butterfield Bank (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  
46th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
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  
41st Floor Tower 1  
Lippo Centre  
89 Queensway  
Hong Kong

Dah Sing Bank Limited  
36th Floor  
Dah Sing Financial Centre  
108 Gloucester Road, Wanchai  
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  
3204-07, 32nd 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"), I am pleased to present the annual report of Wafer Systems Limited (the "Company") and its subsidiaries (collectively, "Wafer Systems" or the "Group") for the year ended 31 December 2004 (the "Review Period").

Leveraging our efforts in developing businesses surrounding Next Generation Network ("NGN") technologies, we made progress in business performance during the 2004 financial year, with improvements in both turnover and profits. During the Review Period, turnover increased to approximately HK\$270 million (2003: HK\$166 million) while net profits improved to approximately HK\$3.02 million (2003: HK\$0.86 million).

With customer satisfaction in mind as our prime motivator, we will continue to provide the most suitable network infrastructure, professional services and network software to clients who wish to reap the full benefits of NGN operation.

### FINANCIAL PERFORMANCE

#### Highlights

	<b>2004</b>	2003	<b>% Change</b>
Turnover (HK\$'000)	<b>269,688</b>	165,879	+63%
Profit from operations (HK\$'000)	<b>6,054</b>	4,349	+39%
Net profit (HK\$'000)	<b>3,023</b>	857	+253%
Basic earnings per share (HK\$'cents)	<b>1.04</b>	0.30	+247%
Net current assets (HK\$'000)	<b>46,248</b>	45,663	+1%
Current ratio	<b>1.57</b>	1.67	-6%
Debt ratio (debts/assets)	<b>59%</b>	56%	+5%

For the year ended 31 December 2004, the Group achieved a turnover of approximately HK\$270 million. It represented an increase of approximately 63% compared with last year's turnover of approximately HK\$166 million. Net profit attributable to shareholders reached approximately HK\$3.02 million, an increase of approximately 2.5 times compared with the approximately HK\$0.86 million recorded in the year ended 31 December 2003.

Mainland China continued to contribute a substantial portion to the Group's revenue, accounting for approximately 95% of the Group's total turnover, while the remaining approximately 5% came from Hong Kong.

During 2004, Network Infrastructure business remained as the Group's main revenue contributor, generating turnover of approximately HK\$241 million, accounting for approximately 89% of the Group's total turnover. (2003: HK\$136 million and 82%). The turnover from Professional Services business amounted to approximately HK\$25 million (2003: HK\$28 million) while turnover from Network Software was approximately HK\$4 million (2003: approximately HK\$1.9 million).

As at 31 December 2004, the Group had bank balances and cash totaling approximately HK\$40.8 million (2003: HK\$45.2 million). Total banking facilities was approximately HK\$72 million (2003: HK\$67 million), of which approximately HK\$49 million (2003: HK\$43 million) had been utilized.

## **CHAIRMAN'S STATEMENT**

### **FINAL DIVIDEND**

The Board of Directors does not recommend the payment of any dividend for the year ended 31 December 2004. (2003: Nil).

### **BUSINESS REVIEW**

Network infrastructure provides the foundation for service providers in building their NGN-backed operations. During the Review Period, we won contracts from major telecommunications service providers in China, including China Telecom, Shandong Netcom, Shanghai Netcom and China Unicom. The services and technologies we provided, helped strengthen their competitive edges and facilitated their advancement to NGN-backed operations.

In addition to broadening our customer base in major telecommunication service providers, we continued to serve well our traditionally strong market segment, the multinational corporations (the "MNCs"). New customers in this category included KONE Corporation, Federal Express, Dupont, Amway, the German software group SAP and many joint venture industrial undertakings between foreign and Chinese corporations. The Group was awarded the "2004 Cisco China Best IP Communications Partner Award" during the year.

During the Review Period, Wafer Systems also offered a broad range of professional services that met the evolving needs of MNCs as well as large domestic corporations like Shanghai Port & Telecommunication Equipment Co. Ltd., the Shanghai Media Group, Huawei Technologies, Sichuan Chang Hong Electronics, Xin Xiang CATV, etc.

Like in Mainland China, network optimization and security solutions are also in much demand for corporations in Hong Kong. Schneider Electric (Hong Kong), QAD Asia Limited, Bookham Technology plc., Hong Kong Interbank Clearing Ltd., and the outlets of Sogo department stores were our new customers during the Review Period.

On the software front, the Group continued its research and development of the NextG IP Billing Software. The Group developed a suite of Internet Protocol ("IP") network management and network optimization solutions for customers in the IP telephony industry. Additional sets of software developed also included business support system ("BSS"), operation support system ("OSS") and network security solutions.

In alliance with the China Division of Cisco Systems Inc. and their headquarters research and development team, the Group expects to accelerate its development of NGN software and solutions, further consolidating its position as an NGN pioneer in the industry.

## **CHAIRMAN'S STATEMENT**

### **PROSPECTS**

With our first mover advantage in the development of NGN and extensive experience and expertise in providing network infrastructure, professional services and network solutions, Wafer Systems has a solid base for future growth. In fiscal year 2005, NGN will remain as a dominant IT trend and the demand for NGN applications from MNCs and telecommunication service providers is expected to see persistent growth. We will continue to capitalize on this trend and help customers streamline their operations and deliver to them new business applications.

We draw on years of experience in delivering high quality services and solutions to MNCs, telecommunication service providers, manufacturing and enterprise customers. They will continue to support our growth in the coming years. Most importantly, we will actively identify new clients on top of strengthening our recent entry into the cable TV sector. The Group will provide bundled service and products to a number of cable TV operators in major cities in Mainland China.

As the Group enters the new fiscal year, we will continue our software research and development to meet the needs of NGN operations, and particularly to meet the needs of customers from the IP Telephony sector, a business area of promising prospects for the Group. The Group will also continue to actively promote its NGN operation support systems, network security systems and business support systems, to enlarge its market share.

Customer satisfaction will continue to be the focus of the Group's business philosophy. No efforts will be spared, while providing customers with what they need for communications efficiency, to assure our customers of our commitment for their satisfaction. This business philosophy is also a guarantee to the continued success of your Group to build on the satisfactory performance of the Review Period.

### **CONCLUSION**

The accomplishments we made in year 2004 were the direct result of the concerted efforts of our dedicated staff. In addition to the teamwork, for which I am most thankful, the Group's insistence in observing its vision and mission, and its emphasis on its corporate values were also vital in driving our achievements in the challenging market.

I take the opportunity to also thank our customers, suppliers, bankers, investors, business partners and advisors for their continued trust and support.

I would also like to thank my fellow directors for their wise counsel and contributions during the year.

**CHAN Sek Keung, Ringo**

*Chairman and Chief Executive Officer*

Hong Kong, 29 March 2005



## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

The following is a comparison of actual business progress in 2004 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.

<b>BUSINESS OBJECTIVES FOR THE REVIEW PERIOD AS SET OUT IN THE PROSPECTUS</b>	<b>ACTUAL BUSINESS PROGRESS IN THE REVIEW PERIOD</b>
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### **Business Development**

Establish two additional sales and marketing presence in the Asia Pacific region.

The Group decided to defer the addition of marketing presence and consolidated marketing efforts on existing ones which were already producing good results.

Marketing presence in other parts of the region has been maintained in collaboration with partners of the Group.

### **Product Development and Service Launches**

#### **Network Infrastructure**

Further enhance the joint research and development with New Eracom of IP Multimedia Collaboration Solutions.

The Group stopped the co-operation with New Eracom at the end of 2003. Instead, the Group has been working with several other partners on IP Multimedia Collaboration Solutions in order to satisfy the broader needs for such solutions on the NGN platform.

Further enhance the research and development and promote the latest version of IP Multimedia Collaboration Solutions.

Enhancement and promotion of the latest version of IP Multimedia Collaboration Solutions continued during the Review Period.

Further increase its market share by promoting Infrastructure Solutions and Network Security Solutions, as well as the Multimedia Solutions by adopting self-developed software and integrating with video conferencing equipment.

This was in progress as planned.

#### **Professional Services**

Further increase its market share by promoting Customer Services, Expert Services and Outsourcing Services.

The Group continued to actively promote its Customer Services, Expert Services and Outsourcing Services.

## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

### **BUSINESS OBJECTIVES FOR THE REVIEW PERIOD AS SET OUT IN THE PROSPECTUS**

### **ACTUAL BUSINESS PROGRESS IN THE REVIEW PERIOD**

#### ***Network Software***

Continue the research and development of the NextG IP Billing Software, the Network Management Software and the OSS/BSS Software.

The Group continued the research and development of the NextG IP Billing Software, etc. under the NGN OSS solutions.

Further increase its market share by promoting the NextG IP Billing Software, the Network Management Software and the OSS/BSS Software.

The Group continued to actively promote its NGN OSS solutions.

#### **Sales and Marketing**

Promote self-developed software in Asia Pacific Region and further enhance the sales network in the PRC and Southeast Asia.

The Group has been promoting its self-developed software in collaboration with its partners in Asia Pacific Region whilst enhancing its sales network in the PRC.

Increase efforts in brand building of the Group for its three business segments through comprehensive marketing campaigns in the PRC.

Increased efforts have been put into these areas.

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

### **EXECUTIVE DIRECTOR**

**Mr. Chan Sek Keung, Ringo**, aged 45, is the founder, the chief executive officer and the executive Director of the Company. 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 over 20 years of working experience in the data and networking communication industry. Mr. Chan holds a Bachelor's degree in Electrical Engineering from the University of Hong Kong, and is a Fellow Member of the Hong Kong Institute of Directors.

### **NON-EXECUTIVE DIRECTORS**

**Mr. Alasdair Gordon Nagle**, aged 42, is a non-executive Director. Mr. Nagle joined the Group in March 1999. He is a director of both HSBC Private Equity (Asia) Limited and its wholly-owned subsidiary of HSBC Private Equity Technology (Asia) Limited, and is a nominee of The Applied Research Council ("ARC"), a substantial shareholder of the Company, 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 33, is a non-executive Director. Ms. Ho joined the Group in May 2001. Ms. Ho is an Investment Director of HSBC Private Equity (Asia) Limited and is a nominee of The Applied Research Council ("ARC"), a substantial shareholder of the Company, 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 46, is a non-executive Director. Mr. Kwan joined the Group in May 2001. He is the financial controller of QPL International Holdings Limited ("QPL"), substantial shareholder of the Company, 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 a Fellow Member of the Chartered Association of Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Mr. Pang Hing Chung, Alfred**, aged 43, 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 Managing Director and Vice Chairman of the Investment Banking Division of BOC International. Mr. Pang holds an MBA degree from the Stanford Graduate School of Business and also a Bachelor of Arts degree in Economics from Cornell University.

**Mr. Tsoi Tai Wai, David**, aged 57, 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 sole proprietor of Alliot Tsoi & Co. Mr. Tsoi holds a Master's degree in Business Administration from the University of East Asia, Macau and also a Fellow Member of the Chartered Association of Certified Accountants, the Hong Kong Institute of Certified Public Accountants and an Associate Member of the Association of Certified General Accountants. He is also a Fellow Member of the Hong Kong Institute of Directors.

## **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

**Mr. YU Zhonghou**, aged 53, is an independent non-executive Director. Mr. Yu was appointed as an independent non-executive Director of the Company in September 2004. Mr. Yu is currently the chairman and general manager of Century Science and Technology Investments Co. Ltd. in Shenzhen, China. Mr. Yu holds a Master's degree in Commercial Economics from the Faculty of Finance and Trade of China Academy of Social Sciences and also a Bachelor's degree in Equipment Automation Science from Tianjin University.

### **SENIOR MANAGEMENT**

**Ms. Wang Fang**, aged 36, 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 mainland China. Ms. Wang graduated from the Faculty of Telecommunications Engineering of the Nanjing Post and Telecom University in China and also holds an International MBA degree from Peking University.

**Mr. Pang Kin Man, Edmond**, aged 57, joined the Group in August 2001, is the company secretary. 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. He is also a Fellow Member of the Hong Kong Institute of Directors and holder of its Professional Diploma in Corporate Governance.

**Mr. Yau Kin Wa**, aged 36, 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 Institute of Certified Public Accountants. Mr. Yau joined the Group in June 1999.

**Mr. Sha Sue Wen, Jack**, aged 35, 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, China. Mr. Sha joined the Group in June 1999.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

During the Review Period, the Group kept its conservative policies in cash and financial management. Surplus funds were placed on interest-bearing deposits with banks. The Group generally financed its operations and serviced its debts with its internal resources, short-term bank loans and convertible bonds.

The Group remained healthy in the financial and liquidity position during the Review Period. As at 31 December 2004, the Group maintained its net current assets steady at approximately HK\$46.2 million (2003: HK\$45.7 million), a current ratio of 1.57 (2003: 1.67). Net current assets included bank balances and cash of approximately HK\$40.8 million (2003: HK\$45.2 million), total short term bank loans of approximately HK\$47.9 million (2003: HK\$33.1 million) and convertible bonds maturing within one year of HK\$3.0 million (2003: HK\$9.3 million).

The Group had no non-current liabilities (2003: HK\$2.8 million) as at year end.

As at 31 December 2004, all assets and liabilities of the Group were denominated in U.S. dollars, Hong Kong dollars and Renminbi.

### **ORDER BOOK AND PROSPECTS OF NEW BUSINESS**

As at 31 December 2004, the Group had contracts on hand for sales amounting to approximately HK\$36.6 million (2003: HK\$28.1 million) which would be booked as revenue upon delivery and implementation.

### **SIGNIFICANT INVESTMENT HELD**

The Group had not made any significant investment since floatation or during the Review Period.

### **SEGMENTAL INFORMATION**

The segmental information of the Group is covered in the second paragraph of Financial Performance under the Chairman's Statement and in note 3 to the financial statements.

### **CHARGES ON GROUP ASSETS**

As at 31 December 2004 and 2003, the Group did not have any significant charges on assets.

### **GEARING RATIO**

As at 31 December 2004, the gearing ratio, i.e. total liabilities over total assets, slightly increased to approximately 0.59 from approximately 0.56 as at 31 December 2003.

### **FOREIGN EXCHANGE EXPOSURE**

During the Review Period, 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 the note 21 and note 22 to the financial statements, the Group had no significant contingent liabilities as at 31 December 2004.

### ACQUISITIONS, DISPOSALS AND SIGNIFICANT INVESTMENT

The Group had not made any significant acquisition, disposal or investment during the Review Period.

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

With the exception of those plans set out in the Prospectus, there are no plans for any significant investments in capital assets and sources of funding.

### EMPLOYEE INFORMATION

As at 31 December 2004, the Group had 142 employees comprising 21 employees based in Hong Kong and 121 employees based in mainland China. Total staff costs, excluding for directors, was approximately HK\$17.3 million (2003: HK\$15.5 million) during the Review Period. The Group continues to provide remuneration packages to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option schemes and staff training program. There has been no major change on staff remuneration policies during the year.

### 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
	Total HK\$'million	Up to 31 December 2004 HK\$'million	up to 31 December 2004 HK\$'million
Research and development *	6.0	6.0	8.7
Expansion of geographical establishments **	4.0	4.0	1.1
Establishment of network monitoring centre	3.0	3.0	2.7
Sales and marketing	2.0	2.0	1.4
Working capitals	4.0	4.0	5.3
<b>Total</b>	<b>19.0</b>	<b>19.0</b>	<b>19.2</b>

\* The higher than projected spending on R & D has been due to the speeding up of research on NGN.

\*\* The lower than projected spending on the expansion of geographical establishments has been the result of savings due to the Group's concentrating its marketing efforts on existing ones, and only establish marketing presence in other parts of the region in collaboration with partners of the Group.

## **DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES**

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

The principal activities of the Company's principal subsidiaries are set out in note 24 to the financial statements.

### **RESULTS**

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 26 of this annual report.

The directors do not recommend the payment of a dividend.

### **SHARE CAPITAL**

Details of share capital of the Company are set out in note 16 to the financial statements.

### **RESERVES**

Movements in the reserves of the Group and the Company during the year are set out on page 29 of this annual report and note 19 to the financial statements respectively.

The Company's reserves available for distribution represent the share premium less deficit which in aggregate amounted to HK\$44.5 million as at 31 December 2004. 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 spent approximately HK\$2.6 million in the acquisition of property, plant and equipment which mainly comprised computer equipment and tools. Details of this and other movements in property, plant and equipment of the Group during the year are set out in note 10 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

Yu Zhonghou (*appointed on 23 September 2004*)

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

Each of the non-executive directors and independent non-executive directors, except for Mr. Yu Zhonghou, has been appointed for a term of two years commencing on 1 April 2004, subject to rotation as required by the Articles of Association of the Company.

Mr. Yu Zhonghou, an independent non-executive director, has been appointed for a term of two years commencing on 23 September 2004 subject to rotation as required by the Articles of Association of the Company. In accordance with Article 86(3) of the Company's Articles of Association, Mr. Yu Zhonghou retires and, being eligible, offers himself for re-election.

In accordance with Article 87 of the Company's Articles of Association, Ms. Clara Ho retires by rotation and, being eligible, offers herself for re-election.



## DIRECTORS' REPORT

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2004, the interests and short positions of the directors, chief executive and their respective associates in the shares, underlying shares and debenture or short position and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules"), were as follows:

#### Long positions:

##### (a) Long position in ordinary shares of HK\$0.01 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Chan Sek Keung, Ringo	Beneficial owner	5,456,000	1.88%
	Held by controlled corporation*	56,400,000	19.45%
		61,856,000	21.33%

\* These shares are held by Woodstock Management Limited ("Woodstock"), a company wholly-owned by Mr. Chan Sek Keung, Ringo who is deemed, by virtue of the SFO, to be interested in these shares.

##### (b) Long positions in the underlying shares in the Company

Name of director	Capacity	Number of share options held	Approximate percentage of the issued share capital of the Company
Chan Sek Keung, Ringo	Beneficial owner	4,200,000	1.45%
Alasdair Gordon Nagle	Beneficial owner	375,000	0.13%
Clara Ho	Beneficial owner	375,000	0.13%
Kwan Kit Tong	Beneficial owner	375,000	0.13%
Pang Hing Chung, Alfred	Beneficial owner	1,500,000	0.52%
Tsoi Tai Wai, David	Beneficial owner	750,000	0.26%
		7,575,000	2.62%

Other than as disclosed above, none of the directors, chief executive and their respective associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2004.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following persons or corporations, in addition to the directors stated under the paragraph headed "Directors' and chief executive's interests or short positions in shares and underlying shares", has relevant interests in the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

#### (a) Long position in ordinary shares of HK\$0.01 each of the Company

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Type of interests</b>	<b>Number of shares</b>	<b>Approximate percentage of the Company's issued share capital</b>
The Applied Research Council ("ARC") <i>(Note i)</i>	Beneficial owner	Corporate	48,460,000	16.71%
HSBC Private Equity Technology (Asia) Limited <i>(Note ii)</i>	Investment manager	Corporate	48,460,000	16.71%
HSBC Private Equity (Asia) Limited <i>(Note ii)</i>	Interest of a controlled corporation	Corporate	48,460,000	16.71%
North 22 Nominees Limited	Beneficial owner	Corporate	36,900,000	12.73%
Mr. Ng Lai Yick <i>(Note iii)</i>	Beneficial owner	Personal	3,134,744	1.08%
	Interest of a controlled corporation	Corporate	36,900,000	12.73%
QPL International Holdings Limited ("QPL") <i>(Note iv)</i>	Beneficial owner	Corporate	35,456,745	12.23%
Mr. Li Tung Lok <i>(Note iv)</i>	Interest of a controlled corporation	Corporate	35,456,745	12.23%
Ms. Su Ching Wah <i>(Note iv)</i>	Interest of spouse	Family	35,456,745	12.23%

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS *(Continued)*

#### (a) Long position in ordinary shares of HK\$0.01 each of the Company *(Continued)*

Notes:

(i) ARC is the beneficial owner of these shares. In addition to these shares, ARC also holds the convertible bond issued by the Company with a face value of HK\$3,000,000. If this convertible bond was converted on its maturity date on 1 January 2005, ARC would hold an additional 5,695,842 shares in the Company.

(ii) HSBC Private Equity Technology (Asia) Limited is deemed, by virtue of the SFO, to be interested in these shares as it is the investment manager of ARC.

HSBC Private Equity (Asia) Limited is deemed, by virtue of the SFO, to be interested in these shares as HSBC Private Equity Technology (Asia) Limited is its wholly-owned subsidiary.

(iii) Mr. Ng Lai Yick is deemed, by virtue of the SFO, to be interested in the 36,900,000 shares held by North 22 Nominees Limited as the company is wholly-owned by him.

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

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

#### (b) Long positions in underlying shares in the Company

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Amount of convertible bonds of the Company issued</b>	<b>Number of underlying shares</b>
ARC <i>(Note i)</i>	Beneficial owner	HK\$3,000,000	5,695,842
HSBC Private Equity Technology (Asia) Limited <i>(Note ii)</i>	Investment manager	HK\$3,000,000	5,695,842
HSBC Private Equity (Asia) Limited <i>(Note ii)</i>	Interest of a controlled corporation	HK\$3,000,000	5,695,842

## **DIRECTORS' REPORT**

### **SUBSTANTIAL SHAREHOLDERS** *(Continued)*

#### **(b) Long positions in underlying shares in the Company** *(Continued)*

*Notes:*

- (i) 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. At the balance sheet date, the Company had redeemed four convertible bonds of face value of HK\$4,188,100, HK\$3,400,000, HK\$4,800,000 and HK\$4,660,000 respectively on their maturity dates leading to ARC's underlying interests in Company's shares being decreased from 38,063,603 shares to 5,695,842 shares.
- (ii) HSBC Private Equity Technology (Asia) Limited is deemed (by virtue of the SFO) to be interested in 5,695,842 underlying shares held by ARC as the Company is the investment manager of ARC.

HSBC Private Equity (Asia) Limited is deemed (by virtue of the SFO) to be interested in 5,695,842 underlying shares held by ARC as HSBC Private Equity Technology (Asia) Limited is its wholly-owned subsidiary.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares in the Company as at 31 December 2004.

## DIRECTORS' REPORT

### SHARE OPTION SCHEMES

The Company in a general meeting held on 20 April 2002 adopted both a pre-Initial Public Offering ("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 Shares Option Scheme or the Post-IPO Share Option Schemes had been exercised during the year.

#### (a) Pre-IPO Share Option Scheme

A summary of the pre-IPO share options granted on 30 April 2002 which were exercisable from 17 November 2002 to 29 April 2012 is as follows:

Types of participants	Exercise price per share <i>HK\$</i>	Number of share options		
		Outstanding as at 1.1.2004	Cancelled during the year	Outstanding as at 31.12.2004
Directors:				
Chan Sek Keung, Ringo	0.55	3,000,000	–	3,000,000
Pang Hing Chung, Alfred	0.55	750,000	–	750,000
		3,750,000	–	3,750,000
Adviser	0.55	750,000	–	750,000
Employees	0.55	5,473,000	(255,000)	5,218,000
		9,973,000	(255,000)	9,718,000

The \$0.55 exercise price per share of the above share options granted under the Pre-IPO Share Option Scheme is the same as 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 31 December 2004.

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 total number of shares in respect of which options are issuable under this scheme was 9,718,000, representing approximately 3.35% of the issued share capital of the Company as at 31 December 2004.

## DIRECTORS' REPORT

### SHARE OPTION SCHEMES *(Continued)*

#### (b) Post-IPO Share Option Scheme

A summary of the Post-IPO Share Options is as follows:

Type of participants	Date of grant	Exercisable period	Closing price* HK\$	Exercise price per share# HK\$	Number of share options			Outstanding as at 31.12.2004
					Outstanding as at 1.1.2004	Granted during the year	Cancelled during the year	
Directors:								
Chan Sek Keung, Ringo	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	1,200,000	-	-	<b>1,200,000</b>
Alasdair Gordon Nagle	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	375,000	-	-	<b>375,000</b>
Clara Ho	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	375,000	-	-	<b>375,000</b>
Kwan Kit Tong	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	375,000	-	-	<b>375,000</b>
Pang Hing Chung, Alfred	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	750,000	-	-	<b>750,000</b>
Tsoi Tai Wai, David	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	750,000	-	-	<b>750,000</b>
					3,825,000	-	-	<b>3,825,000</b>
Adviser	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	300,000	-	-	<b>300,000</b>
Employees	12.7.2002	12.7.2003 to 11.7.2012	0.385	0.384	3,419,000	-	(438,000)	<b>2,981,000</b>
	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	3,351,000	-	(317,000)	<b>3,034,000</b>
	10.10.2003	10.10.2004 to 9.10.2013	0.142	0.142	385,000	-	(95,000)	<b>290,000</b>
	23.2.2004	23.2.2005 to 22.2.2014	0.160	0.165	-	2,844,000	(440,000)	<b>2,404,000</b>
	11.10.2004	11.10.2005 to 10.10.2014	0.124	0.124	-	828,000	-	<b>828,000</b>
					7,155,000	3,672,000	(1,290,000)	<b>9,537,000</b>
					11,280,000	3,672,000	(1,290,000)	<b>13,662,000</b>

\* The closing price of the Company's shares immediately before the date of grant.

# The exercise price represented the average of the closing prices of the Company's shares quoted on the Stock Exchange on the five trading days immediately preceding the date of grant of the options.

## **DIRECTORS' REPORT**

### **SHARE OPTION SCHEMES** *(Continued)*

#### **(b) Post-IPO Share Option Scheme** *(Continued)*

No options granted under this scheme lapsed or were exercised since the date of grant up to 31 December 2004.

These 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.

The total number of shares in respect of which options are issuable under this scheme shall not in aggregate exceed 10% of the number of issued shares.

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 during the year under the above share option schemes of the Company adopted on 20 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;
- (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' REPORT**

### **DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance to which the 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 49% 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 82% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 64% 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 Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### **DISCLOSURE OF TRADE RECEIVABLES ARISING FROM THE ORDINARY COURSE OF BUSINESS OF THE GROUP**

The following disclosure is made pursuant to Rules 17.15 and 17.22 of the GEM Listing Rules.

As at 31 December 2004, there were 289,944,745 shares of the Company in issue. Based on the average closing price of the Company's shares of HK\$0.1266 as stated in the Stock Exchange's daily quotation sheets for the trading days from 23 December 2004 to 30 December 2004 (both days inclusive), being the five business days immediately preceding 31 December 2004, the total market capitalization of the Company was approximately HK\$36,707,004 (the "Total Market Capitalization") as at 31 December 2004.



## DIRECTORS' REPORT

### DISCLOSURE OF TRADE RECEIVABLES ARISING FROM THE ORDINARY COURSE OF BUSINESS OF THE GROUP *(Continued)*

As at 31 December 2004, the following trade receivables of the Group exceeded 8% of the Total Market Capitalization.

<b>Customer name</b>	<b>Amount due to the Group as at 31 December 2004</b>	<b>% of Total market capitalization</b>
	<i>(HK\$'000)</i>	
The China Unicom Group	8,147	22%
Maintek Computer (Suzhou) Co., Ltd.	7,060	19%
Guangdong Telecom Appliance Corp.	6,717	18%
Motorola (China) Electronics Ltd.	4,930	13%
中國電信集團公司山西省電信公司	3,726	10%

These receivables, which resulted from sales of network equipment and provision of services by the Group in its ordinary course of business and on normal commercial terms, are unsecured, interest-free and payable under normal payment terms of the Group.

The above customers and their ultimate beneficial owners are independent third parties not connected with any of the directors, chief executive, management shareholders or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules).

### CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2004 with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

In accordance with the revised GEM Listing Rules, Mr. Chan Sek Keung, Ringo, the Chairman and Chief Executive Officer, resigned from the Audit Committee on 23 September 2004 and the vacancy was taken up on the same day by Mr. Yu Zhonghou, independent non-executive director appointed on the same day.

The audit committee comprises of three independent non-executive directors, namely Mr. Tsoi Tai Wai, David, Mr. Pang Hing Chung, Alfred and Mr. Yu Zhonghou. Mr. Tsoi Tai Wai, David is the Chairman of the audit committee.

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

The Company established the remuneration committee of the Board at its meeting held on 26 February 2004 with written terms of reference. The remuneration committee comprises three members, namely independent non-executive directors, Mr. Tsoi Tai Wai, David and Mr. Pang Hing Chung, Alfred and a non-executive director, Ms. Clara Ho. Mr. Tsoi Tai Wai, David is the Chairman of the remuneration committee.

## **DIRECTORS' REPORT**

### **CORPORATE GOVERNANCE** *(Continued)*

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code/the required standard of dealings, and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive directors are independent.

### **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 31 December 2004.

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

### **AUDITORS**

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 29 April 2005 for their re-appointment.

On behalf of the Board of Directors

**CHAN Sek Keung, Ringo**

*Chairman and Chief Executive Officer*

Hong Kong, 29 March 2005

## **AUDITORS' REPORT**

### **TO THE SHAREHOLDERS OF WAFER SYSTEMS LIMITED**

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

We have audited the financial statements on pages 26 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 financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

29 March 2005

## CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Turnover	3	<b>269,688</b>	165,879
Other operating income		<b>747</b>	510
Charges in materials and equipment		<b>(219,059)</b>	(125,577)
Staff costs		<b>(16,650)</b>	(14,461)
Depreciation and amortisation		<b>(5,297)</b>	(5,134)
Other operating expenses		<b>(23,375)</b>	(16,868)
Profit from operations	4	<b>6,054</b>	4,349
Finance costs	7	<b>(2,593)</b>	(3,207)
Profit before taxation		<b>3,461</b>	1,142
Taxation	8	<b>(473)</b>	(285)
Profit before minority interest		<b>2,988</b>	857
Minority interest		<b>35</b>	–
Net profit attributable to shareholders		<b>3,023</b>	857
Earnings per share			
– Basic	9	<b>1.04 cents</b>	0.30 cents
– Diluted	9	<b>1.04 cents</b>	0.29 cents

## CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>3,779</b>	4,606
Software product development costs	11	<b>7,256</b>	6,795
		<b>11,035</b>	11,401
<b>Current assets</b>			
Inventories		<b>11,895</b>	10,623
Trade and other receivables	13	<b>75,072</b>	56,490
Pledged bank deposits		<b>9</b>	1,042
Bank balances and cash		<b>40,752</b>	45,167
		<b>127,728</b>	113,322
<b>Current liabilities</b>			
Trade and other payables	14	<b>29,635</b>	24,842
Taxation		<b>866</b>	481
Convertible bonds maturing within one year	15	<b>3,000</b>	9,280
Short-term bank loans		<b>18,411</b>	14,953
Trust receipts and import loans – unsecured		<b>29,568</b>	18,103
		<b>81,480</b>	67,659
<b>Net current assets</b>		<b>46,248</b>	45,663
<b>Total assets less current liabilities</b>		<b>57,283</b>	57,064
<b>Non-current liabilities</b>			
Convertible bonds maturing after one year	15	<b>-</b>	2,804
<b>Net assets</b>		<b>57,283</b>	54,260
<b>Capital and reserves</b>			
Share capital	16	<b>2,900</b>	2,900
Reserves		<b>54,383</b>	51,360
<b>Shareholders' funds</b>		<b>57,283</b>	54,260

The financial statements on pages 26 to 51 were approved and authorised for issue by the Board of Directors on 29 March 2005 and are signed on its behalf by:

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

**TSOI Tai Wai, David**  
Director

**BALANCE SHEET** AT 31 DECEMBER 2004

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Non-current asset			
Investment in a subsidiary	12	<b>10</b>	10
Current assets			
Prepayment		<b>100</b>	–
Amount due from a subsidiary		<b>56,607</b>	55,788
		<b>56,707</b>	55,788
Current liabilities			
Accounts payables		<b>36</b>	46
Amounts due to subsidiaries		<b>6,303</b>	1,103
Convertible bonds maturing within one year	15	<b>3,000</b>	9,280
		<b>9,339</b>	10,429
Net current assets		<b>47,368</b>	45,359
Total assets less current liabilities		<b>47,378</b>	45,369
Non-current liabilities			
Convertible bonds maturing after one year	15	–	2,804
Net assets		<b>47,378</b>	42,565
Capital and reserves			
Share capital	16	<b>2,900</b>	2,900
Reserves	19	<b>44,478</b>	39,665
Shareholders' funds		<b>47,378</b>	42,565

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

**TSOI Tai Wai, David**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital	Share premium	Statutory surplus reserve fund	Enterprise expansion fund	Staff welfare fund	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	2,823	55,824	1,003	502	502	(7,328)	53,326
Exercise of warrants	77	-	-	-	-	-	77
Net profit attributable to Shareholders	-	-	-	-	-	857	857
At 31 December 2003	2,900	55,824	1,003	502	502	(6,471)	54,260
Net profit attributable to shareholders	-	-	-	-	-	3,023	3,023
<b>At 31 December 2004</b>	<b>2,900</b>	<b>55,824</b>	<b>1,003</b>	<b>502</b>	<b>502</b>	<b>(3,448)</b>	<b>57,283</b>

As stipulated by the relevant laws and regulations for foreign investment enterprises in the Mainland China (the "PRC"), the PRC subsidiaries of the Company are 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 31 DECEMBER 2004

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Operating activities		
Profit before taxation	<b>3,461</b>	1,142
Adjustments for:		
Interest income	<b>(261)</b>	(222)
Interest expenses	<b>2,217</b>	2,192
Amortisation of discount on convertible bonds	<b>376</b>	1,015
Depreciation and amortisation	<b>5,297</b>	5,134
Loss on disposal of property, plant and equipment	<b>9</b>	122
Loss on disposal of investment in securities	<b>-</b>	362
Allowance for bad and doubtful debts	<b>2,435</b>	45
Operating cash flows before movements in working capital	<b>13,534</b>	9,790
(Increase) decrease in inventories	<b>(1,272)</b>	12,117
(Increase) decrease in trade and other receivables	<b>(21,017)</b>	40,626
Increase (decrease) in trade and other payables	<b>4,793</b>	(27,689)
Cash (used in) from operations	<b>(3,962)</b>	34,844
PRC income tax paid	<b>(88)</b>	-
Net cash (used in) from operating activities	<b>(4,050)</b>	34,844
Investing activities		
Interest received	<b>261</b>	222
Purchase of property, plant and equipment	<b>(2,570)</b>	(2,820)
Proceeds from disposal of property, plant and equipment	<b>80</b>	270
Software product development costs paid	<b>(2,450)</b>	(3,005)
Proceeds from disposal of investments in securities	<b>-</b>	38
Decrease in pledged bank deposits	<b>1,033</b>	18,906
Net cash (used in) from investing activities	<b>(3,646)</b>	13,611
Financing activities		
Interest paid	<b>(2,217)</b>	(2,192)
Proceeds from issue of shares	<b>-</b>	77
Proceeds from issue of shares to minority shareholders of a subsidiary	<b>35</b>	-
Redemption of convertible bonds	<b>(9,460)</b>	(7,588)
Borrowings raised from short-term bank loans	<b>3,458</b>	14,953
Borrowing raised (repayment of) from trust receipts and import loans	<b>11,465</b>	(22,594)
Net cash from (used in) financing activities	<b>3,281</b>	(17,344)
Net (decrease) increase in cash and cash equivalents	<b>(4,415)</b>	31,111
Cash and cash equivalents at 1st January	<b>45,167</b>	14,056
Cash and cash equivalents at 31st December	<b>40,752</b>	45,167
Analysis of the balances of cash and cash equivalents		
Bank balances	<b>40,752</b>	45,167



## **NOTES TO THE FINANCIAL STATEMENTS** FOR THE YEAR ENDED 31 DECEMBER 2004

### **1. GENERAL**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The shares of the Company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company while its subsidiaries (collectively refer as to the "Group") are principally engaged in the provision of network infrastructure solutions, including the sales of network equipment and software and the provision of related network infrastructure services, provision of network professional services, and sales of its proprietary network software.

### **2. 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.

#### **Potential impact arising from the recently issued accounting standards**

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

#### **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.

##### **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.

## **NOTES TO THE FINANCIAL STATEMENTS** FOR THE YEAR ENDED 31 DECEMBER 2004

### **2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **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.

#### **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.

#### **Software product 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 product 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. Amortization of these costs commences when the softwares are ready for their intended use.

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.

## **NOTES TO THE FINANCIAL STATEMENTS** FOR THE YEAR ENDED 31 DECEMBER 2004

### **2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **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.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in a subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

## **NOTES TO THE FINANCIAL STATEMENTS** FOR THE YEAR ENDED 31 DECEMBER 2004

### **2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

#### **Taxation** *(Continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement.

#### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 3. 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 sales of network equipment and software and the provision of related network infrastructure services
- Network professional services – provision of network professional services
- Network software – the sales of the Group's proprietary network software

Business segments for the year are as follows:

	<b>Turnover</b>		<b>Results</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Network infrastructure	<b>240,694</b>	135,775	<b>5,473</b>	3,088
Network professional services	<b>24,973</b>	28,241	<b>1,728</b>	1,813
Network software	<b>4,021</b>	1,863	<b>(1,437)</b>	(725)
	<b>269,688</b>	165,879	<b>5,764</b>	4,176
Other operating income			<b>747</b>	510
Central administrative expenses			<b>(457)</b>	(337)
Profit from operations			<b>6,054</b>	4,349
Finance costs			<b>(2,593)</b>	(3,207)
Profit before taxation			<b>3,461</b>	1,142
Taxation			<b>(473)</b>	(285)
Profit before minority interest			<b>2,988</b>	857
Minority interest			<b>35</b>	–
Net profit attributable to shareholders			<b>3,023</b>	857

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

#### Business segments *(Continued)*

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>BALANCE SHEET</b>		
Assets		
Segment assets		
– network infrastructure	<b>68,803</b>	60,459
– network professional services	<b>5,055</b>	4,380
– network software	<b>10,710</b>	9,107
Unallocated corporate assets	<b>54,195</b>	50,777
	<b>138,763</b>	124,723
Liabilities		
Segment liabilities		
– network infrastructure	<b>29,635</b>	24,842
Unallocated corporate liabilities	<b>51,845</b>	45,621
	<b>81,480</b>	70,463
<b>OTHER INFORMATION</b>		
Capital additions		
– network infrastructure	<b>1,870</b>	1,160
– network professional services	<b>591</b>	682
– network software	<b>2,559</b>	3,983
	<b>5,020</b>	5,825
Depreciation and amortisation		
– network infrastructure	<b>2,514</b>	2,125
– network professional services	<b>794</b>	1,248
– network software	<b>1,989</b>	1,761
	<b>5,297</b>	5,134
Allowance for bad and doubtful debts	<b>2,435</b>	45

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 3. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

#### Geographical segments

The Group's operations are located in the PRC and Hong Kong. The following table provides an analysis of the Group's geographical segment information:

	<b>Turnover</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
PRC	<b>255,663</b>	146,830
Hong Kong	<b>14,025</b>	19,049
	<b>269,688</b>	165,879

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:

	<b>Carrying amount of segment assets</b>		<b>Capital additions</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
PRC	<b>128,293</b>	115,342	<b>3,250</b>	5,072
Hong Kong	<b>10,470</b>	9,381	<b>1,770</b>	753
	<b>138,763</b>	124,723	<b>5,020</b>	5,825

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 4. PROFIT FROM OPERATIONS

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration ( <i>note 5</i> )	<b>1,455</b>	1,470
Other staff's retirement benefits scheme contributions	<b>1,317</b>	714
Other staff costs	<b>15,974</b>	14,747
Less: Staff costs capitalised in software product development costs	<b>(2,096)</b>	(2,230)
	<b>16,650</b>	14,701
Allowance for bad and doubtful debts	<b>2,435</b>	45
Amortisation of software product development costs	<b>1,989</b>	1,762
Auditors' remuneration		
– current year	<b>440</b>	430
– overprovision in prior years	<b>–</b>	(64)
Depreciation of property, plant and equipment	<b>3,308</b>	3,372
Loss on disposal of investments in securities	<b>–</b>	362
Loss on disposal of property, plant and equipment	<b>9</b>	122
Operating lease rentals in respect of land and buildings	<b>2,630</b>	2,314
and after crediting:		
Interest income	<b>261</b>	222



## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

### 5. DIRECTORS' REMUNERATION

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Fees for		
– executive director	–	–
– independent non-executive directors	<b>260</b>	240
– other non-executive directors	–	–
	<b>260</b>	240
Other emoluments for non-executive directors	–	–
Other emoluments for executive director		
– basic salaries and allowances	<b>1,183</b>	1,218
– retirement benefits scheme contributions	<b>12</b>	12
	<b>1,195</b>	1,230
<b>Total directors' remuneration</b>	<b>1,455</b>	1,470

The emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>2004</b>	2003
Up to HK\$1,000,000	<b>6</b>	5
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	1

For each of the two years ended 31 December 2004, the details of remuneration for the executive director are set out above. The directors' fees for one independent non-executive director is HK\$19,600 (2003: nil) and for each of the two other independent non-executive directors is HK\$120,000 (2003: HK\$120,000).

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 31 DECEMBER 2004

### 6. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included one executive director of the Company, whose emoluments are included in note 5 above. The aggregate emoluments of the remaining four highest paid individuals are as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Basic salaries and allowances	<b>1,974</b>	1,812
Retirement benefits scheme contributions	<b>36</b>	48
	<b>2,010</b>	1,860

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

### 7. FINANCE COSTS

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Interest on bank borrowings wholly repayable within five years	<b>(2,217)</b>	(2,192)
Amortisation of discount on convertible bonds	<b>(376)</b>	(1,015)
	<b>(2,593)</b>	(3,207)

### 8. TAXATION

The charge represents PRC income tax which is calculated at rates applicable to respective PRC subsidiaries.

No provision for Hong Kong Profits Tax has been made in the financial statements 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, two of the Company's PRC subsidiaries are within their 50% tax relief period, the rest is within its tax exemption period.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 8. TAXATION *(Continued)*

The charge for the year is reconciled to profit per income statement as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Profit before taxation	<b>3,461</b>	1,142
Tax at the applicable income tax rate	<b>(606)</b>	(200)
Tax effect of expenses not deductible for tax purposes	<b>(27,210)</b>	(15,619)
Tax effect of income not taxable for tax purposes	<b>27,471</b>	15,232
Tax effect of unrecognised tax losses	<b>(203)</b>	(284)
Utilisation of tax losses previously not recognised	<b>49</b>	–
Effect of tax exemption granted to PRC subsidiaries	<b>(38)</b>	671
Others	<b>64</b>	(85)
Tax effect for the year	<b>(473)</b>	(285)

### 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>2004</b>	2003
Earnings:		
Net profit attributable to shareholders for the purposes of basic and diluted earnings per share	<b>HK\$3,023,000</b>	HK\$857,000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>289,944,745</b>	287,021,272
Effect of dilutive potential ordinary shares		
– warrants	–	2,705,303
– options	<b>177,389</b>	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>290,122,134</b>	289,726,575

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds for both years since their exercise would result in an increase in earnings per share from continuing ordinary operations for both years.

The effect of share options of 2003 was excluded from the calculation of diluted earnings per share because certain exercise price of the Company's share options was higher than the average market price of ordinary shares.

**NOTES TO THE FINANCIAL STATEMENTS** FOR THE YEAR ENDED 31 DECEMBER 2004

**10. 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>					
COST					
At 1 January 2004	7,891	1,779	438	4,602	14,710
Additions	1,360	145	–	1,065	2,570
Disposals	(40)	(99)	–	(206)	(345)
<b>At 31 December 2004</b>	<b>9,211</b>	<b>1,825</b>	<b>438</b>	<b>5,461</b>	<b>16,935</b>
DEPRECIATION					
At 1 January 2004	5,767	1,328	254	2,755	10,104
Provided for the year	1,773	310	101	1,124	3,308
Eliminated on disposals	(35)	(99)	–	(122)	(256)
<b>At 31 December 2004</b>	<b>7,505</b>	<b>1,539</b>	<b>355</b>	<b>3,757</b>	<b>13,156</b>
NET BOOK VALUES					
<b>At 31 December 2004</b>	<b>1,706</b>	<b>286</b>	<b>83</b>	<b>1,704</b>	<b>3,779</b>
At 31 December 2003	2,124	451	184	1,847	4,606

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 11. SOFTWARE PRODUCT DEVELOPMENT COSTS

<i>HK\$'000</i>	
<b>THE GROUP</b>	
COST	
At 1 January 2003	7,700
Additions	3,005
At 31 December 2003	
Additions	2,450
<b>At 31 December 2004</b>	
	<b>13,155</b>
AMORTISATION	
At 1 January 2003	2,148
Amortised for the year	1,762
At 31 December 2003	
Amortised for the year	1,989
<b>At 31 December 2004</b>	
	<b>5,899</b>
CARRYING VALUES	
<b>At 31 December 2004</b>	
	<b>7,256</b>
At 31 December 2003	
	6,795

### 12. INVESTMENT IN A SUBSIDIARY

<b>THE COMPANY</b>	
<b>2004 &amp; 2003</b>	
<i>HK\$'000</i>	
Unlisted shares, at cost	10

Details of the Company's principal subsidiaries at 31 December 2004 are set out in note 24.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 13. TRADE AND OTHER RECEIVABLES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>61,312</b>	44,132
Other receivables	<b>4,124</b>	8,155
Prepaid maintenance charges	<b>9,636</b>	4,203
	<b>75,072</b>	56,490

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:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Age</b>		
0 to 30 days	<b>18,254</b>	15,858
31 to 60 days	<b>9,044</b>	10,611
61 to 90 days	<b>10,709</b>	4,241
91 to 180 days	<b>16,597</b>	4,313
181 to 365 days	<b>4,349</b>	9,942
Over 365 days	<b>5,460</b>	227
	<b>64,413</b>	45,192
Less: Allowance for bad and doubtful debts	<b>(3,101)</b>	(1,060)
	<b>61,312</b>	44,132

### 14. TRADE AND OTHER PAYABLES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>18,548</b>	14,772
Other payables	<b>11,087</b>	10,070
	<b>29,635</b>	24,842

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 14. TRADE AND OTHER PAYABLES *(Continued)*

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

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>Age</b>		
0 to 30 days	<b>14,127</b>	8,862
31 to 90 days	<b>2,565</b>	2,864
91 to 180 days	<b>691</b>	28
181 to 270 days	<b>72</b>	13
271 to 365 days	<b>597</b>	3,002
Over 365 days	<b>496</b>	3
	<b>18,548</b>	14,772

### 15. CONVERTIBLE BONDS

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Convertible bonds with an aggregate face value of HK\$3,000,000 (2003: HK\$12,460,000) discounted at a rate of 7% per annum	<b>2,449</b>	10,556
Add: Accumulated amortisation of discount upon the final redemption of the convertible bonds	<b>551</b>	1,528
	<b>3,000</b>	12,084
The convertible bonds mature as follows:		
Within one year	<b>3,000</b>	9,280
Between one to two years	<b>-</b>	2,804
	<b>3,000</b>	12,084
Less: Amount matures within one year shown under current liabilities	<b>3,000</b>	9,280
Amount matures after one year	<b>-</b>	2,804

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 15. 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 notes 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 18 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.

During the year, the Company redeemed convertible bonds at face value of HK\$9,460,000.

### 16. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$'000</i>
Authorised:		
– at 1 January 2003, 31 December 2003 and 2004	500,000,000	5,000
Issued and fully paid:		
– at 1 January 2003	282,268,000	2,823
– exercise of warrants	7,676,745	77
– at 31 December 2003 and 2004	289,944,745	2,900

On 20 May 2003, the warrant holder of subscription rights to subscribe for 7,676,745 shares of HK\$0.01 each had exercised its rights at HK\$0.01 per share. All the shares issued in 2003 rank pari passu with the then existing shares in all respects.

### 17. WARRANTS

On 20 May 2003, all the outstanding warrants were exercised to subscribe for 7,676,745 ordinary shares in the Company at a subscription price of HK\$0.01 per share.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 18. SHARE OPTIONS

#### (a) Pre-Initial Public Offering (“IPO”) share option scheme

Pursuant to the pre-IPO share option scheme adopted by the Company on 20 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.

Details of the movements in the number of share options during the year under the Company’s pre-IPO share option scheme were as follows:

Type of participants	Exercisable period	Exercise price per share	Number of share options				
			Outstanding at 1.1.2003	Cancelled during the year	Outstanding at 31.12.2003	Cancelled during the year	Outstanding at 31.12.2004
		HK\$					
Directors	17 November 2002 to 29 April 2012	0.55	3,750,000	-	3,750,000	-	<b>3,750,000</b>
Others	17 November 2002 to 29 April 2012	0.55	6,663,000	(440,000)	6,223,000	(255,000)	<b>5,968,000</b>
			10,413,000	(440,000)	9,973,000	(255,000)	<b>9,718,000</b>

#### (b) Post-IPO share option scheme

Pursuant to the post-IPO share option scheme adopted by the Company on 20 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 the closing prices of the Company’s shares quoted 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.

These 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.

The total number of shares in respect of which options are issuable under this scheme shall not in aggregate exceed 10% of the number of issued shares.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 18. SHARE OPTIONS *(Continued)*

#### (b) Post-IPO share option scheme *(Continued)*

Details of the movements in the number of share options during the year under the Company's post-IPO share option scheme were as follows:

Type of participants	Exercisable period	Exercise price per share	Number of share options						
			Outstanding at 1.1.2003	Granted during the year	Cancelled during the year	Outstanding at 31.12.2003	Granted during the year	Cancelled during the year	Outstanding at 31.12.2004
		HK\$							
Directors	20 February 2004 to 19 February 2013	0.138	-	3,825,000	-	3,825,000	-	-	<b>3,825,000</b>
Others	12 July 2003 to 11 July 2012	0.384	5,007,000	-	(1,588,000)	3,419,000	-	(438,000)	<b>2,981,000</b>
	20 February 2004 to 19 February 2013	0.138	-	4,034,000	(383,000)	3,651,000	-	(317,000)	<b>3,334,000</b>
	10 October 2004 to 9 October 2013	0.142	-	385,000	-	385,000	-	(95,000)	<b>290,000</b>
	23 February 2005 to 22 February 2014	0.165	-	-	-	-	2,844,000	(440,000)	<b>2,404,000</b>
	11 October 2005 to 10 October 2014	0.124	-	-	-	-	828,000	-	<b>828,000</b>
			5,007,000	8,244,000	(1,971,000)	11,280,000	3,672,000	(1,290,000)	<b>13,662,000</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 19. RESERVES

	<b>Share premium</b> <i>HK\$'000</i>	<b>Deficit</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
THE COMPANY			
At 1 January 2003	55,824	(24,657)	31,167
Net profit attributable to shareholders	–	8,498	8,498
At 31 December 2003	55,824	(16,159)	39,665
Net profit attributable to shareholders	–	4,813	4,813
<b>At 31 December 2004</b>	<b>55,824</b>	<b>(11,346)</b>	<b>44,478</b>

### 20. UNRECOGNISED DEFERRED TAXATION

At the balance sheet date, the Group has unutilised tax losses of HK\$11,773,000 (2003: HK\$10,893,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

### 21. 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 future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	<b>THE GROUP</b>	
	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	<b>2,067</b>	2,540
In the second to fifth year inclusive	<b>563</b>	1,503
	<b>2,630</b>	4,043

### 22. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given corporate guarantees totalling HK\$54,000,000 (2003: HK\$52,000,000) to banks to secure the credit facilities granted to its subsidiaries.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 23. 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, subject to a maximum of HK\$1,000 for each employee each month, 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.

The total cost charged to income statement of HK\$1,317,000 (2003: HK\$691,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

### 24. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are wholly-owned by the Company, at 31 December 2004 are as follows:

<b>Name of subsidiary</b>	<b>Place of incorporation/ establishment/ operations</b>	<b>Nominal value of issued/ registered capital</b>	<b>Principal activities</b>
Wafer Systems Holdings Limited*	Hong Kong	HK\$10,000	Investment holding
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 12 January 2001 <sup>#</sup>	US\$1,500,000	Operation of businesses in network infrastructure, provision of network professional services and sales of proprietary network software
上海滬威網絡系統有限公司 (Wafer Network Systems (Shanghai) Co. Ltd.)	PRC for a term of 15 years commencing 28 July 1999 <sup>#</sup>	US\$210,000	Operation of businesses in network infrastructure, provision of network professional services and sales of proprietary network software

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

### 24. 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 sales of proprietary network software
Wafer Systems (Hong Kong) Limited	Hong Kong	HK\$10,000	Operation of businesses in network infrastructure, provision of network professional services and sales 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 26 July 2001 <sup>#</sup>	US\$100,950	Research and development

\* Directly held by the Company.

<sup>#</sup> These are wholly foreign owned enterprises established in the PRC.

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

	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	<b>2004 HK\$'000</b>
<b>RESULTS</b>					
Turnover	85,339	149,579	180,333	165,879	<b>269,688</b>
Profit (loss) before taxation	474	8,198	(6,400)	1,142	<b>3,461</b>
Taxation	403	(191)	551	(285)	<b>(473)</b>
Profit (loss) before minority interest	877	8,007	(5,849)	857	<b>2,988</b>
Minority interest	-	-	-	-	<b>35</b>
Net profit (loss) attributable to shareholders	877	8,007	(5,849)	857	<b>3,023</b>

	<b>As at 31 December</b>				<b>2004</b>
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	<b>HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>					
Total assets	70,495	103,280	165,763	124,723	<b>138,763</b>
Total liabilities	(74,591)	(80,915)	(112,437)	(70,463)	<b>(81,480)</b>
(Deficiency) balance of shareholders' funds	(4,096)	22,365	53,326	54,260	<b>57,283</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 Units 901-7, 9th Floor, MLC Millennia Plaza, 663 King’s Road, North Point, Hong Kong on Friday, 29 April 2005 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 2004;
2. To re-elect a director, Ms. Clara Ho, retiring by rotation; *(note 5)*
3. To re-elect a director, Mr. Yu Zhonghou, retiring under Article 86 (3) of the Company; *(note 6)*
4. To re-appoint auditors and to authorize the board of directors to fix their remuneration; and
5. 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;

## NOTICE OF ANNUAL GENERAL MEETING

(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 which carry rights to subscribe for or are convertible into shares in the Company, shall not exceed twenty per cent (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.)”



## **NOTICE OF ANNUAL GENERAL MEETING**

(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;
- (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 ten per cent (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 5 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 ten per cent (10%) of the aggregate nominal amount of the issued share capital of the Company on the date of this resolution."

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

Hong Kong, 29 March 2005

## 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 another person as his proxy to attend and vote instead of him. A member who is holder of two or more shares may appoint more than one proxy to attend and 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 certified copy thereof, must be deposited at the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th 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 5 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 2004 Annual Report of the Company.
4. Article 66 of the Company's articles of association sets out the procedures by which shareholders of the Company may demand a poll;

A resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) By the Chairman of such meeting; or
- (b) By at least three Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) By a Member of Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or
- (d) By a Member or Members present in person or in the case of a Member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member.

5. The biographical details on Ms. Clara Ho are as contained on page 9 of the Annual Report, Ms. Ho has been re-appointed as a non-executive director of the Company for a term of two years commencing on 1 April 2004 without any remuneration. Her interests in the shares of the Company, within the meaning of Part XV of the Securities and Futures Ordinance, are the 375,000 share options in the Company granted to her on 20 February 2003 at the exercise price of HK\$0.138 per share and expiring on 19 February 2013. For the past three years, Ms. Ho has not held any directorship position in any other listed public companies.
6. The biographical details on Mr. Yu Zhonghou are as contained on page 10 of the Annual Report, Mr. Yu has been appointed as an independent non-executive director of the Company for a term of two years commencing on 23 September 2004 at a fee of HK\$72,000 per annum. Mr. Yu does not have any interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. For the past three years, Mr. Yu has not held any directorship position in any other listed public companies.
7. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.