



Wafer Systems Limited

威發系統有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

THIRD QUARTERLY REPORT FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

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

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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

* For identification purpose only

TO OUR SHAREHOLDERS

The board of Directors (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the nine months ended 30 September 2004 (the “Review Period”) together with comparative unaudited figures for the corresponding period in 2003.

BUSINESS OVERVIEW AND REVIEW

Financial Highlights

	Q3/2004	Q3/2003	Change	Q1-Q3/ 2004	Q1-Q3/ 2003	Change
	HK\$'000	HK\$'000		HK\$'000	HK\$'000	
Turnover	112,078	33,721	+232%	208,488	127,919	+63%
Operating Profit	2,295	233	+885%	3,805	3,082	+23%
Net Profit/(Loss)	1,382	(582)	N/A	1,896	483	+293%
Basic Earnings/(Loss) Per Share (<i>HK cents</i>)	0.48	(0.20)	N/A	0.65	0.17	+282%
Contracts on hand at quarter end				29,058	22,497	+29%

Financial Review

For the Review Period, the Group achieved a turnover of approximately HK\$208 million. It represented an increase of approximately 63% compared with the turnover of approximately HK\$128 million for the corresponding period last year. Net profit attributable to shareholders rose to approximately HK\$1.9 million, representing an increase of approximately 293% against approximately HK\$0.5 million in the corresponding period last year. Basic earnings per share and fully diluted earnings per share were both 0.65 HK cents.

During the Review Period, turnover from the Network Infrastructure business increased by approximately 82% to approximately HK\$188 million (2003: HK\$103 million), accounting for approximately 90% of the Group's total turnover. As for the Network Software business, turnover increased by approximately 198% to approximately HK\$2 million (2003: HK\$677,000), while turnover from the Professional Services business was approximately HK\$19 million (2003: HK\$24 million). Geographically, mainland China continued to be the Group's major market.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the Review Period (2003: Nil).

Business Review

The Company's continuous efforts in developing business surrounding the next generation network (“NGN”) technologies over the years have forged a solid base for the Group's future growth and created for itself and its clients a win-win situation. The Group is committed to helping clients to strengthen their competitive edges in the industry and progress into NGN-backed operation. These endeavours also underscored new contract wins by the Group from renowned telecommunications service providers including China Telecom, Shandong Netcom, Shanghai Netcom and Guangdong Unicom during the Review Period. With first mover advantages, the Group has been able to provide high quality NGN products, services and solutions compatible with international requirements, capturing the eyes of visionary telecommunications service providers.

During the Review Period, repeat orders continued to come from the Group's strong base of multinational corporation (“MNCs”) customers such as the automobile manufacturers, telecommunication service providers and large local enterprises in mainland China. New additions to the Group's major customers list include SAP, a German software group and locally the Shanghai Media Group. Additionally, with the experience in serving MNCs, the Group also enjoys the trust of customers to capture the immense opportunities arising from the growing trend of MNCs to outsource security management services, including Intrusion Detection Systems (“IDS”) and Intrusion Prevention Systems (“IPS”).

Keeping abreast of market trends and armed with a strong understanding of customer needs, the Group is strategically developing a suite of network software. These advanced software, including internet protocol (“IP”) network management and network optimization solutions, are tailored for customers from the IP telephony industry, a business area of promising prospects for the Group. The Group was recently presented by Cisco Inc. with the Cisco China Best IP Communication Partner Award.

Prospects

The Group kicked off its business for the fourth quarter of 2004 with a healthy backlog of orders on hand. As at 30 September 2004, the total value of the backlog orders on hand was approximately HK\$29.1 million, compared with approximately HK\$22.5 million as at 30 September 2003.

While the Group’s investment in NGN during the past few years has started to bear fruit, the recurrent traditional business is still very important to us. On one hand, the Group will continue to exploit from its strong hold on market segments like the MNCs, the particular industries, telecommunications service providers and reputable mainland China enterprises for our Network Infrastructure and Professional Services businesses. On the other hand, the Group will continue its foundation laying for the ultimate profit harvesting in the coming years.

Leveraging its solid foundation in NGN, the Board has confidence in the Group attaining even greater advancements in the future and bringing satisfactory returns to our shareholders.

FINANCIAL INFORMATION

Unaudited Consolidated Financial Results

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	112,078	33,721	208,488	127,919
Other operating income		40	28	99	116
Changes in materials and equipment		(94,269)	(22,737)	(166,684)	(92,480)
Staff costs		(4,280)	(4,065)	(12,390)	(12,186)
Depreciation and amortization		(1,435)	(1,332)	(4,037)	(4,151)
Other operating expenses		(9,839)	(5,382)	(21,671)	(16,136)
Profit from operations	3	2,295	233	3,805	3,082
Finance costs		(918)	(815)	(1,885)	(2,599)
Profit/(loss) before taxation		1,377	(582)	1,920	483
Taxation	4	(27)	–	(72)	–
Profit/(loss) after taxation		1,350	(582)	1,848	483
Minority interests		32	–	48	–
Net profit/(loss) attributable to shareholders		1,382	(582)	1,896	483
Earnings/(loss) per share					
– Basic (<i>cents</i>)	5	0.48	(0.20)	0.65	0.17
– Diluted (<i>cents</i>)	5	N/A	N/A	0.65	N/A

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

(1) Basis of presentation

The unaudited consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

The principal accounting policies and basis of preparation adopted for the preparation of the unaudited consolidated results are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2003.

The unaudited consolidated results have been reviewed by the audit committee of the Company (the "Audit Committee").

(2) Turnover and revenue

An analysis of the Group's turnover and revenue recognized for the three months and the nine months ended 30 September 2004 together with the comparative figures for the corresponding period in 2003 are as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Network infrastructure	104,513	22,218	187,667	103,252
Professional services	6,691	11,126	18,802	23,990
Network software	874	377	2,019	677
	<u>112,078</u>	<u>33,721</u>	<u>208,488</u>	<u>127,919</u>
Total turnover				
Interest income	40	28	99	116
	<u>112,118</u>	<u>33,749</u>	<u>208,587</u>	<u>128,035</u>

(3) Profit from operations

Profit from operations has been arrived at after charging:

	For the three months ended 30 September		For the nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amortization of software product development costs	582	462	1,547	1,615
Depreciation of property, plant and equipment	853	870	2,490	2,536
Staff costs (including Directors' remuneration)	4,280	4,065	12,390	12,186
Loss on disposal of investments in securities	-	-	-	360
Loss on disposal of property, plant and equipment	-	-	10	-

(4) Taxation

Taxation charges consisted of:

	For the three months ended 30 September		For the nine months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Current taxation – Hong Kong profits tax	-	-	-	-
PRC income tax	27	-	72	-
	<u>27</u>	<u>-</u>	<u>72</u>	<u>-</u>

No provision for Hong Kong profits tax has been made for the three months and nine months ended 30 September 2004 as the Group had no assessable profit arising in or derived from Hong Kong (2003: Nil).

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 Review Period, one of the Company's PRC subsidiaries is within its tax exemption period, the rest are within their 50% tax relief period.

No deferred tax asset has been recognized in respect of the unutilized tax losses due to the unpredictability of future profit streams.

(5) **Earnings per share**

The calculation of basic earnings per share for the three months and the nine months ended 30 September 2004 is based on the unaudited net profit attributable to shareholders of approximately HK\$1,382,000 (2003: net loss of HK\$582,000) and approximately HK\$1,896,000 (2003: HK\$483,000), respectively and on the weighted average number of approximately 289,945,000 (2003: 289,945,000) shares and approximately 289,945,000 (2003: 286,092,000) shares, respectively, in issue during the period.

The calculation of the diluted earnings per share for the nine months ended 30 September 2004 is based on the net profit attributable to shareholders of approximately HK\$1,896,000 and on the weighted average number of approximately 290,215,000 shares.

Diluted earnings per share has not been presented for the three months ended 30 September 2004 and for the three months and nine months ended 30 September 2003 since the effect is anti-dilutive.

(6) **Reserves**

	Share premium <i>HK\$'000</i>	Statutory surplus reserves fund <i>HK\$'000</i>	Enterprise expansion fund <i>HK\$'000</i>	Staff welfare fund <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 1 January 2003	55,824	1,003	502	502	(7,328)	50,503
Profit for the nine months ended 30 September 2003	–	–	–	–	483	483
As at 30 September 2003	<u>55,824</u>	<u>1,003</u>	<u>502</u>	<u>502</u>	<u>(6,845)</u>	<u>50,986</u>
As at 1 January 2004	55,824	1,003	502	502	(6,471)	51,360
Profit for the nine months ended 30 September 2004	–	–	–	–	1,896	1,896
As at 30 September 2004	<u>55,824</u>	<u>1,003</u>	<u>502</u>	<u>502</u>	<u>(4,575)</u>	<u>53,256</u>

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITION IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2004, the interests and short positions of the Directors, the chief executive of the Company and their respective associates (as defined in the GEM Listing Rules) in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(a) **Long positions in shares in the Company**

Name of Director	Number of shares held						Approximate percentage of the Company's issued share capital	
	Personal interest	Capacity	Family interest	Corporate interest	Capacity	Other interest		
Mr. Chan Sek Keung, Ringo	4,956,000	Beneficial owner	–	56,400,000 <i>(Note)</i>	Interest of a controlled corporation	–	61,356,000	21.16%

Note: Such shares in the Company 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 underlying shares in the Company (Directors' rights to acquire shares)

Name of Director	Capacity	Date of grant	Number of unlisted pre-IPO share option outstanding as at 1 January 2004	Number of unlisted pre-IPO share option outstanding as at 30 September 2004	Number of unlisted post-IPO share option outstanding as at 1 January 2004	Number of unlisted post-IPO share option outstanding as at 30 September 2004	Aggregate interests	Exercise period of share options	Exercise price of share options (HK\$)	Approximate percentage of the Company's issued share capital
Mr. Chan Sek Keung, Ringo	Beneficial owner	30 April 2002	3,000,000	3,000,000	-	-	-	17 November 2002 to 29 April 2012	0.55	
		20 February 2003	-	-	1,200,000	1,200,000	4,200,000	20 February 2004 to 19 February 2013	0.138	1.45%
Mr. Pang Hing Chung, Alfred	Beneficial owner	30 April 2002	750,000	750,000	-	-	-	17 November 2002 to 29 April 2012	0.55	
		20 February 2003	-	-	750,000	750,000	1,500,000	20 February 2004 to 19 February 2013	0.138	0.52%
Mr. Tsoi Tai Wai, David	Beneficial owner	20 February 2003	-	-	750,000	750,000	750,000	20 February 2004 to 19 February 2013	0.138	0.26%
Mr. Alasdair Gordon Nagle	Beneficial owner	20 February 2003	-	-	375,000	375,000	375,000	20 February 2004 to 19 February 2013	0.138	0.13%
Ms. Clara Ho	Beneficial owner	20 February 2003	-	-	375,000	375,000	375,000	20 February 2004 to 19 February 2013	0.138	0.13%
Mr. Kwan Kit Tong	Beneficial owner	20 February 2003	-	-	375,000	375,000	375,000	20 February 2004 to 19 February 2013	0.138	0.13%

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

Other than as disclosed above, none of the Directors, the chief executive of the Company and their respective associates (as defined in the GEM Listing Rules), had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 September 2004.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the Review Period, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealing set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry with all the Directors, the Directors confirmed that they had complied with the required standard of dealings and the code of conducts for Directors' securities transactions during the Review Period.

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

As at 30 September 2004, the following persons or corporations, in addition to the Directors, stated under the section headed "Directors' and chief executive's interests or short position in shares and underlying shares of the Company" had interests in the shares and underlying shares in the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

(a) Long positions in share in the Company

Name of shareholder	Capacity	Type of Interests	Number of shares	Approximate Percentage of the Company's issued share capital
The Applied Research Council ("ARC") (Note 1)	Beneficial owner	Corporate	48,460,000	16.71%
HSBC Private Equity Technology (Asia) Limited (Note 2)	Investment manager	Corporate	48,460,000	16.71%
HSBC Private Equity (Asia) Limited (Note 2)	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 (Note 3)	Beneficial owner Interest of a controlled corporation	Personal Corporate	3,134,744 36,900,000	1.08% 12.73%
QPL International Holdings Limited ("QPL") (Note 4)	Beneficial owner	Corporate	35,456,745	12.23%
Mr. Li Tung Lok (Note 4)	Interest of a controlled corporation	Corporate	35,456,745	12.23%
Madam Su Ching Wah (Note 4)	Interest of spouse	Family	35,456,745	12.23%

Notes:

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

Name of Shareholder	Capacity	Amount of convertible bonds of the Company issued	Number of underlying Shares
ARC (<i>Note 1</i>)	Beneficial owner	HK\$3,000,000	5,695,842
HSBC Private Equity Technology (Asia) Limited (<i>Note 2</i>)	Investment manager	HK\$3,000,000	5,695,842
HSBC Private Equity (Asia) Limited (<i>Note 2</i>)	Interest of a controlled corporation	HK\$3,000,000	5,695,842

Notes:

- (1) 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. As at 30 September 2004, 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.
- (2) 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 30 September 2004.

SHARE OPTION SCHEMES

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

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

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

One single grant of 11,913,000 shares in aggregate was made to various participants on 30 April 2002 under this scheme. As at 30 September 2004, options comprising an aggregate of 9,768,000 shares were outstanding, as detailed below:

	Exercise price per share <i>HK\$</i>	Number of share options		
		Outstanding as at 1.1.2004	Cancelled during Review Period	Outstanding as at 30.9.2004
Type of Participants:				
Directors	0.55	3,750,000	–	3,750,000
Advisor	0.55	750,000	–	750,000
Employees	0.55	5,473,000	205,000 (<i>Note</i>)	5,268,000
		<u>9,973,000</u>	<u>205,000</u>	<u>9,768,000</u>

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

Pre-IPO share options 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 on or after the third anniversary of the Date of Listing until the end of the option period or lapse of an option.

The above outstanding options may be exercised, in accordance with the terms of the Pre-IPO Share Option Scheme, before 30 April 2012.

(b) Post-IPO Share Option Schemes

There have been a total of 4 Post-IPO share options grants. The numbers of share options granted were 5,277,000 shares on 12 July 2002, 7,859,000 shares on 20 February 2003, 385,000 shares on 10 October 2003 and 2,844,000 shares on 23 February 2004.

A summary of the Post-IPO Share Option Scheme movements during the Review Period and as at 30 September 2004 is as follows:

Date of grant	Type of Participants	Exercisable Period	Exercise Price per share HK\$	Number of share options			
				Outstanding as at 1.1.2004	Granted during Review Period	Cancelled during Review Period (Note 1)	Outstanding as at 30.9.2004
12.7.2002	Employees	12.7.2003 to 11.7.2012	0.384	3,419,000	–	353,000	3,066,000
20.2.2003	Directors	20.2.2004 to 19.2.2013	0.138	3,825,000	–	–	3,825,000
	Advisors	20.2.2004 to 19.2.2013	0.138	300,000	–	–	300,000
	Employees	20.2.2004 to 19.2.2013	0.138	3,351,000	–	248,000	3,103,000
				<u>7,476,000</u>	<u>–</u>	<u>248,000</u>	<u>7,228,000</u>
10.10.2003	Employees	10.10.2004 to 9.10.2013	0.142	385,000	–	65,000	320,000
23.2.2004	Employees	23.2.2005 to 22.2.2014	0.165 (Note 2)	–	2,844,000	298,000	2,546,000
				<u>11,280,000</u>	<u>2,844,000</u>	<u>964,000</u>	<u>13,160,000</u>

Notes:

- (1) These options were cancelled according to the rules of this scheme due to the employees having left the Group.
- (2) The closing price of the share of the Company immediately before the date on which the options were granted was HK\$0.155.

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

The above outstanding options may be exercised within the exercisable period in accordance with the terms of the Post-IPO Share Option Scheme.

COMPETITION AND CONFLICT OF INTERESTS

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

SPONSOR'S INTERESTS

As confirmed by the Company's sponsor, CSC Asia Limited (the "Sponsor"), as at 30 September 2004, neither the Sponsor nor its directors, employees and associates (as referred in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or any member of the Group or any right to subscribe for or to nominate persons to subscribe for the securities of the Company, or any members of the Group.

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

AUDIT COMMITTEE

The Company established the Audit Committee on 29 October 2001 with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules and with reference to the guidelines published by the Hong Kong Society of Accountants.

In accordance with the revised listing rules, Mr. Ringo Chan, 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, an independent non-executive Director.

The present Audit Committee consists of three independent non-executive Directors, namely, Mr. Tsoi Tai Wai, David, Mr. Pang Hing Chung, Alfred and Mr. Yu Zhonghou. Mr. Tsoi is the chairman of the Audit Committee.

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the Review Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

By Order of the Board
WAFER SYSTEMS LIMITED
CHAN Sek Keung, Ringo
Chairman and Chief Executive Officer

Hong Kong, 12 November 2004