

WAFER SYSTEMS
Wafer Systems Limited
威發系統有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2007**

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.

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The Exchange takes no responsibility for the contents of this announcement, 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 announcement.

As at the date of this announcement, the Board consists of one executive director, Mr. Chan Sek Keung, Ringo, one non-executive director, Mr. Kwan Kit Tong and three independent non-executive directors, namely Mr. Pang Hing Chung, Alfred, Mr. David Tsoi and Mr. Chan Tze Ngon.

This announcement, 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 reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement 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”) of Wafer Systems Limited (the “Company”) is pleased to announce the un-audited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 (the “Review Period”) and the comparative un-audited figures for the correspondence period in 2006.

BUSINESS OVERVIEW AND REVIEW

Financial Highlights

	Q2/2007 HK\$'000	Q2/2006 HK\$'000	<i>Change</i>	1H/2007 HK\$'000	1H/2006 HK\$'000	<i>Change</i>
Turnover	144,615	94,590	+52.9%	195,167	140,948	+38.5%
Operating Profit	5,972	5,964	+0.1%	6,216	2,823	+120.2%
Profit attributable to equity holders of the Company	4,617	4,902	-5.8%	3,659	1,012	+261.6%
Basic EPS (HK Cents)	1.59	1.69	-5.9%	1.26	0.35	+260.0%

FINANCIAL REVIEW

During the Review Period, the Group recorded a turnover of approximately HK\$195.2 million (2006: HK\$140.9 million), an increase of 38.5% as compared to the corresponding period in 2006.

Profit of the period increased from HK\$1.0 million to HK\$3.7 million, representing an increase of 261.6% as compared to the corresponding period in 2006. Basic earnings per share were approximately HK1.26 cents (2006: HK0.35 cents).

During the Review Period, mainland China continued to be the major market of the Group, accounting for 95.2% (2006: 92.3%) of the total turnover, with the remaining 4.8% (2006: 7.7%) generated in Hong Kong. Turnover generated from Network Infrastructure business amounted to HK\$164.7 million (2006: HK\$127.3 million). The turnover of Professional Services business amounted to HK\$28.3 million (2006: HK\$12.5 million). The turnover of Network Software business amounted to HK\$2.2 million (2006: 1.2 million).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

BUSINESS REVIEW

The development of information technology and internet industry in China has brought good potentials for network services and solutions providers. The Group's continued investment on the development of its capabilities in advanced technology of networking in the past years has enabled the Group to produce better turnover and profit during the first half of the year.

During the Review Period, the Group continued to expand its customer base which now covers a large number of multi-national corporations ("MNCs"), all major telephone companies, telecommunications service provider ("SP"), local industries and governmental bodies. The collaborations with globally renowned vendors in the telecommunications and networking sector continued to enable the Group to upgrade its capabilities in technology and applications.

Focusing on technologies in unified communications, network optimisation and network security, the Group continued to gain customer confidence and supplier appreciation. The diversified customer base has helped the Group in its grasp of user experience in the direction of technology migration. The Review Period has seen the Group's participation in the sizeable Chinanet Next Carrying Network ("CN2") project as well as awarded by vendor partners, such as Cisco China "The Best Partner Award in the Telco Sector" for their last financial year.

PROSPECTS

After experiencing the keen market competition and relatively slow business season in past years, the Group has entered into a more reasonable business climate. Leveraging on the advancement in technology of network infrastructure, enlarged customer and user bases and improvement of network services, the Group is cautiously optimistic towards business growth in the foreseeable future, though competition in the market will continue to be keen.

As the Group enters the third quarter of 2007, there was a healthy backlog of orders on hand. As at 30 June 2007, the total value of backlog on hand amounted to approximately HK\$50 million.

Wafer Systems will place high priority to further develop its advanced technologies including unified communications, network securities, network optimisation, proprietary networking software and other emerging technologies such as wi-max. Like always, the Group will endeavor to provide seamless solutions from the perspective of user-experience.

Looking forward, Wafer Systems will continue to strive for greater breakthrough in research and development, so as to enhance the Group's competitiveness, strengthen its position in the industry and enlarge its market share. The Group will continue to look for and grasp business development opportunities in mergers and acquisitions for the benefits and better returns to the Company and its shareholders.

APPRECIATION

On behalf of the Board, I would like to express sincere thanks to all of our management and staff for their commitments and contributions. I would also like to take this opportunity to thank our shareholders, investors and customers for their heartfelt encouragements and supports.

CHAN Sek Keung, Ringo

Chairman and Chief Executive Officer

Hong Kong, 13 August 2007

MANAGEMENT DISCUSSION & ANALYSIS

Liquidity, Financial Resources and Capital Structure

The Group had total cash and bank deposits of HK\$38.5 million as at 30 June 2007 (31 December 2006: 52.3 million). The Group had no bank overdraft as at 30 June 2007 (31 December 2006: Nil).

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-terms bank loans and other loans.

The Group remained healthy in the financial and liquidity position during the Review Period. As at 30 June 2007, the Group recorded net current assets of approximately HK\$63.3 million as compared with approximately HK\$61.0 million as at 31 December 2006. The current ratio slightly increased to approximately 1.54 from 1.47 as at 31 December 2006.

Non-current portion of other loan as at 30 June 2007 amounted to approximately HK\$3.6 million (31 December 2006: HK\$5.6 million).

As at 30 June 2007, all assets and liabilities of the Group were denominated in U.S. dollars, Hong Kong dollars and Renminbi.

Acquisitions, Disposals and Significant Investment

The Group had not made any significant acquisitions, disposals or investments during the Review Period.

Segmental Information

The segmental information of the Group is covered in the Financial Review and in note 2 to the Condensed Financial Information.

Employee Information

As at 30 June 2007, the Group had 167 employees (2006: 161 employees) comprising 20 employees (2006: 19 employees) based in Hong Kong and 147 employees (2006: 142 employees) based in mainland China. The Group continues to provide remuneration packages to employees in accordance with market practices and staff past performance. In addition to basic remuneration, the Group also provides other benefits such as a mandatory provident fund, medical scheme, share option scheme and staff training programs to employees.

Charges on Group Assets

As at 30 June 2007, the Group had a pledged bank deposit of approximately HK\$5.0 million for securing certain bank overdraft facilities (31 December 2006: HK\$5.0 million).

Save as disclosed above, the Group did not have any significant charges on its assets.

Gearing Ratio

As at 30 June 2007, the gearing ratio, i.e. total liabilities over total assets, decreased to approximately 63.2% from approximately 67.5% as at 31 December 2006.

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 impact of foreign exchange exposure has been insignificant and positive, no hedging or other alternatives have been implemented.

Order Book & Prospects for New Business

As at 30 June 2007, the Group had contracts on hand for sales amounting to approximately HK\$50.0 million (2006: HK\$43.8 million) which would be booked as revenue upon delivery and implementation.

Contingent Liabilities

Except for those commitments and contingent liabilities set out in note 11 and note 12 to the Financial Information, the Group had no significant contingent liabilities as at 30 June 2007.

Future plans for Investments or Capital Assets and Sources of Funding

The Group does not have any plan for any significant investments, acquisitions of capital assets or additional sources of funding.

FINANCIAL INFORMATION

Condensed Consolidated Income Statement (Unaudited)

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2007	2006	2007	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	144,615	94,590	195,167	140,948
Other income		56	26	87	509
Charges in materials and equipment		(123,766)	(79,050)	(159,825)	(117,605)
Employee expense		(5,835)	(5,160)	(11,401)	(10,122)
Depreciation and amortisation		(1,192)	(1,114)	(2,269)	(2,324)
Other expenses		(7,906)	(3,328)	(15,543)	(8,583)
Finance costs		(1,355)	(1,062)	(2,557)	(1,811)
Profit before taxation		4,617	4,902	3,659	1,012
Taxation	4	—	—	—	—
Profit for the period		4,617	4,902	3,659	1,012
Profit attributable to:					
Equity holders of the Company		4,617	4,902	3,659	1,012
Minority interest		—	—	—	—
		4,617	4,902	3,659	1,012
Earnings per share					
– Basic (cents)	5	1.59	1.69	1.26	0.35
– Diluted (cents)	5	1.57	N/A	1.25	N/A

Condensed Consolidated Balance Sheet

		(Unaudited) As at 30 June 2007	(Audited) As at 31 December 2006
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	6	2,262	2,032
Software product development costs		8,044	7,753
		<u>10,306</u>	<u>9,785</u>
Current assets			
Inventories		12,552	5,602
Trade and other receivables	7	129,035	133,065
Pledged bank deposits		5,013	5,013
Cash and cash equivalents		33,534	47,276
		<u>180,134</u>	<u>190,956</u>
Current liabilities			
Trade and other payables	8	52,235	54,721
Tax Payable		1,126	1,548
Bank borrowings		39,337	49,843
Other loans		24,162	23,843
		<u>116,860</u>	<u>129,955</u>
Net current assets		<u>63,274</u>	<u>61,001</u>
Total assets less current liabilities		<u>73,580</u>	<u>70,786</u>
Non-current liabilities			
Other loans		3,575	5,573
Net assets		<u><u>70,005</u></u>	<u><u>65,213</u></u>
Capital and reserves			
Share capital	9	2,916	2,900
Reserves		67,089	62,313
Total equity		<u><u>70,005</u></u>	<u><u>65,213</u></u>

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Share capital HK\$'000	Share premium HK\$'000	Share- based payments reserve HK\$'000	Statutory surplus reserve fund HK\$'000	Enterprise expansion fund HK\$'000	Staff welfare fund HK\$'000	Exchange (accumulated reserve HK\$'000	Retained earnings/ accumulated losses) HK\$'000	Total HK\$'000
As at 1 January 2006 (as previously reported)	2,900	55,824	587	1,003	502	502	566	(2,458)	59,426
Exchange differences on translation of foreign operations	–	–	–	–	–	–	339	–	339
Profit for the six months ended 30 June 2006	–	–	–	–	–	–	–	1,010	1,010
Recognition of share-based payments	–	–	36	–	–	–	–	–	36
As at 30 June 2006	2,900	55,824	623	1,003	502	502	905	(1,448)	60,811
As at 1 January 2007 (as previously reported)	2,900	55,824	643	1,505	502	–	1,196	2,643	65,213
Exchange differences on translation of foreign operations	–	–	–	–	–	–	834	–	834
Profit for the six months ended 30 June 2007	–	–	–	–	–	–	–	3,659	3,659
Recognition of share-based payments	–	–	89	–	–	–	–	–	89
Exercise of share options, net of expenses	16	308	(114)	–	–	–	–	–	210
As at 30 June 2007	2,916	56,132	618	1,505	502	–	2,030	6,302	70,005

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30 June 2007 <i>HK\$'000</i>	Six months ended 30 June 2006 <i>HK\$'000</i>
Net cash from operating activities	1,120	63,979
Net cash used in investing activities	(2,886)	(1,315)
Net cash used in financing activities	(11,976)	(25,201)
Net (decrease)/increase in cash and cash equivalents	(13,742)	37,463
Cash and cash equivalents at the beginning of period	47,276	17,619
Cash and cash equivalents at the end of period	<u>33,534</u>	<u>55,082</u>
Analysis of the balances of cash and cash equivalents		
Cash and Cash equivalents	<u>33,534</u>	<u>55,082</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

(1) Basis of presentation

The condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard No.34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The accounting policies adopted in preparing the condensed consolidated financial report were in consistent with those applied for the annual financial report for the year ended 31 December 2006.

The condensed financial statements are unaudited but have been reviewed by the audit committee of the Company (the “Audit Committee”).

(2) Segment Information

a. Business segment

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

	(Unaudited) For the six months ended 30 June, 2007		(Unaudited) For the six months ended 30 June, 2006	
	Turnover HK\$'000	Results HK\$'000	Turnover HK\$'000	Results HK\$'000
Network infrastructure	164,707	3,916	127,256	2,367
Professional services	28,258	1,760	12,478	967
Network software	2,202	469	1,214	(1,009)
	<u>195,167</u>	<u>6,145</u>	<u>140,948</u>	<u>2,325</u>
Other operating income		87		509
Central administrative expenses		<u>(16)</u>		<u>(11)</u>
Profit from operations		6,216		2,823
Finance costs		<u>(2,557)</u>		<u>(1,811)</u>
Profit before taxation		3,659		1,012
Taxation		<u>—</u>		<u>—</u>
Profit for the period		<u>3,659</u>		<u>1,012</u>

b. Geographical segment

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

	(Unaudited) For the six months ended 30 June,	
	2007 HK\$'000	2006 HK\$'000
Hong Kong	9,386	10,805
PRC	<u>185,781</u>	<u>130,143</u>
	<u>195,167</u>	<u>140,948</u>

(3) Profit before taxation

Profit before taxation has been arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Amortisation of software product development costs	740	656	1,390	1,312
Depreciation of property, plant and equipment	452	458	879	1,012
Staff costs (including directors' remuneration)	5,835	5,160	11,401	10,122

and after crediting:

Interest income	56	15	87	40
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(4) Taxation

No provision for Hong Kong and overseas profits tax has been made as the Group had either no assessable profit or had tax losses brought forward to set off the estimated assessable profit for the six months ended 30 June 2007 and the corresponding period in 2006.

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 commencing from their first profit-making year of operation and thereafter entitled to a 50% relief from PRC income tax for the immediate following three years. During the Review Period, one of the Company's PRC subsidiaries is within its 50% tax relief period, one of the Company's PRC subsidiaries is subject to full PRC income tax at effective tax rate of 27% and one of the Company's PRC subsidiaries was still in its tax exemption period and its first profit-making year of operation had not started.

No deferred tax asset has been recognised in respect of the unutilised 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 six months ended 30 June 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$4,617,000 (2006: HK\$4,902,000) and approximately HK\$3,659,000 (2006: HK\$1,012,000), respectively and on the weighted average number of approximately 290,376,000 (2006: 289,945,000) shares in issue during the period.

The calculation of diluted earnings per share for the three months and six months ended 30 June 2007 is based on the unaudited profit attributable to equity holders of the Company approximately HK\$4,617,000 and HK\$3,659,000, respectively and on the weighted average number of approximately 292,757,000 shares in issue during the period.

(6) Property, plant and equipment

Movements in property, plant and equipment were:

	Computer equipment	Furniture, fixtures and office equipment	Motor vehicle	Tools	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 January 2007	9,593	1,859	1,157	6,506	19,115
Additions	145	513	—	446	1,104
Exchange differences	153	34	18	125	330
Disposals	(1)	(32)	—	(552)	(585)
At 30 June 2007	9,890	2,374	1,175	6,525	19,964
Accumulated depreciation					
At 1 January 2007	8,967	1,722	731	5,663	17,083
Charged for the period	303	83	119	374	879
Exchange differences	140	30	12	107	289
Written back on disposals	(1)	(32)	—	(516)	(549)
At 30 June 2007	9,409	1,803	862	5,628	17,702
Net book value					
At 30 June 2007	481	571	313	897	2,262
At 31 December 2006	626	137	426	843	2,032

(7) Trade and other receivables

	As at	
	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Trade receivables	107,322	113,079
Retention money receivables	10,700	10,696
Other receivables	10,501	7,458
Prepaid maintenance charges	512	1,832
	129,035	133,065

There was no change in the Group's credit policies since 31 December 2005.

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

	As at	
	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Age		
0 to 90 days	55,564	78,752
91 to 180 days	18,329	17,285
181 to 365 days	30,391	15,909
over 365 days	8,418	4,224
	112,702	116,170
Less: Accumulated impairment	(5,380)	(3,091)
	<u>107,322</u>	<u>113,079</u>

(8) Trade and other payables

	As at	
	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Trade payables	32,974	43,480
Other payables	19,261	11,241
	<u>52,235</u>	<u>54,721</u>

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

	As at	
	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Age		
0 to 90 days	30,114	38,633
91 to 180 days	690	3,024
over 180 days	2,170	1,823
	<u>32,974</u>	<u>43,480</u>

(9) Share capital

	Number of shares	Nominal value
	'000	HK\$'000
Authorised		
– Ordinary shares of HK\$0.01 each		
– At 1 January 2007 and 30 June 2007	500,000	5,000
Issued and fully paid		
– At 1 January 2007	289,945	2,900
– Exercise of share options	1,570	16
– At 30 June 2007	291,515	2,916

(10) Share-based payments

The Group has two share option schemes for certain directors, advisor and employees. They are the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and are described below:

	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
Exercise Price	HK\$0.55 per share, which was the same as the placing price per share at the time of IPO	Average closing price of 5 trading days immediately prior to the date of grant
Vesting Period	One-half to three years	One to four years
Contractual Life	10 years from date of grant	10 years from date of grant
Lapse	After 3 months from the departure of grantees from the Group	After 3 months from the departure of grantees from the Group

Details of the share option outstanding during the Review Period are as follows:

	2007		2006
	Number of share options	Weighted average exercise price	Number of share options
	'000	HK\$	'000
Outstanding at 1 January,	18,329	0.354	19,957
Granted during the period	6,980	0.088	–
Lapsed during the period	(37)	0.245	(829)
Exercised during the period	(1,570)	0.138	–
Outstanding at 30 June	23,702	0.290	19,128
Exercisable at 30 June	16,186	0.382	15,867

Options granted during the six months ended 30 June 2007 were 6,980,000 shares (2006: Nil).

(11) Operating lease commitments

As at 30 June 2007, the Group had operating lease commitments of approximately HK\$6,328,000 (31 December 2006: HK\$3,355,000), out of which approximately HK\$2,498,000 was payable within 1 year (31 December 2006: HK\$2,366,000).

(12) Contingent liabilities

As at 30 June 2007, the Company has given corporate guarantees totaling approximately HK\$50,400,000 (31 December 2006: HK\$50,400,000) to banks to secure the credit facilities granted to its subsidiaries.

PURCHASE, SALE OR REDEMPTION 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.

SHARE OPTION SCHEMES

The Company, at the 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").

Share options exercised and lapsed for both schemes are detailed below:—

(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 June 2007, options comprising an aggregate of 8,300,000 shares were outstanding, as detailed below:

	Number of share options			
	Exercise price per share <i>HK\$</i>	Outstanding as at 1.1.2007	Lapsed during Review Period	Outstanding as at 30.6.2007
Types of participants:				
Directors	0.55	3,750,000	—	3,750,000
Advisor	0.55	750,000	—	750,000
Employees	0.55	3,810,000	10,000 (Note)	3,800,000
		<u>8,310,000</u>	<u>10,000</u>	<u>8,300,000</u>

Note: These options lapsed according to the rules of this scheme due to the employee 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 “Listing Date”); (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 Listing Date; and (iii) the remaining options granted on or after the third anniversary of the Listing Date 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 Scheme

There have been a total of 6 lots of Post-IPO share option grants. The lots were 5,277,000 shares on 12 July 2002, 7,859,000 shares on 20 February 2003, 385,000 shares on 10 October 2003, 2,844,000 shares on 23 February 2004, 828,000 shares on 11 October 2004 and 6,980,000 shares on 12 January 2007.

A summary of the Post-IPO Share Option Scheme movements during the Review Period and as at 30 June 2007 is as follows:

Date of grant	Type of participants	Exercisable period	Exercise price per share	Number of share options				
				Outstanding as at 1.1.2007	Granted during Review Period	Exercised during Review Period	Lapsed during Review Period	Outstanding as at 30.6.2007
			HK\$				(Note 1)	
12.7.2002	Employees	12.7.2003 to 11.7.2012	0.384	2,025,000	–	–	–	2,025,000
20.2.2003	Directors	20.2.2004 to 19.2.2013	0.138	3,825,000	–	1,500,000 (Note 2 & 3)	–	2,325,000
	Advisors	20.2.2004 to 19.2.2013	0.138	300,000	–	–	–	300,000
	Employees	20.2.2004 to 19.2.2013	0.138	1,961,000	–	36,000	10,000	1,915,000
				6,086,000	–	1,536,000	10,000	4,540,000
10.10.2003	Employees	10.10.2004 to 9.10.2013	0.142	135,000	–	–	5,000	130,000
23.2.2004	Employees	23.2.2005 to 22.2.2014	0.165	1,458,000	–	20,000	–	1,438,000
11.10.2004	Employees	11.10.2005 to 10.10.2014	0.124	315,000	–	14,000	12,000	289,000
12.1.2007	Directors	12.1.2008 to 11.1.2017	0.088	–	750,000	–	–	750,000
	Employees	12.1.2008 to 11.1.2017	0.088	–	6,230,000	–	–	6,230,000
				–	6,980,000	–	–	6,980,000
	Total:			10,019,000	6,980,000	1,570,000	27,000	15,402,000

Notes:—

- (1) These options lapsed according to the rules of this scheme due to the employees having left the Group.
- (2) Out of these 1,500,000 exercised share options, 375,000 shares were granted to each of Mr. Alasdair Gordon Nagle and Ms. Clara Ho, directors appointed to the Board to represent the interests of The Applied Research Council (“ARC”). Both Mr. Nagle and Ms. Ho exercised the options on 3 April 2007 and shares were allotted to them accordingly. They subsequently resigned from directorship in the Company with effect from 13 April 2007 after ARC ceased to be a substantial shareholder of the Company after 12 April 2007.
- (3) Out of these 1,500,000 exercised share options, 750,000 shares were granted to Mr. David Tsoi. He exercised the options on 14 June 2007 and shares were allotted to him accordingly.

Post-IPO share options are exercisable starting from the first anniversary of the date of grant 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 such exercise period in accordance with the terms of the Post-IPO Share Option Scheme.

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

As at 30 June 2007, 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						Total interest in shares	Approximate percentage of the Company's issued share capital
	Personal interest	Capacity	Family interest	Corporate interest	Capacity	Other interest		
Mr. Chan Sek Keung, Ringo	23,160,000	Beneficial owner	–	56,400,000 (Note)	Interest through a controlled corporation	–	79,560,000	27.29%

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 have an interest in these shares.

(b) Long positions in underlying shares in the Company (Directors’ rights to acquire shares)

Name of director	Date of grant	Number of unlisted pre-IPO share option outstanding as at 1.1.2007	Number of unlisted pre-IPO share option outstanding as at 30.6.2007	Number of unlisted post-IPO share option outstanding as at 1.1.2007	Number of unlisted post-IPO share option outstanding as at 30.6.2007	Aggregate interests	Approximate percentage of the Company’s issued share capital
Mr. Chan Sek Keung, Ringo	30.4.2002	3,000,000	3,000,000	–	–		
	20.2.2003	–	–	1,200,000	1,200,000	4,200,000	1.44%
Mr. Pang Hing Chung, Alfred	30.4.2002	750,000	750,000	–	–		
	20.2.2003	–	–	750,000	750,000	1,500,000	0.51
Mr. David Tsoi (Note 3)	20.2.2003	–	–	750,000	–		
	12.1.2007	–	–	–	750,000	750,000	0.26%
Mr. Alasdair Gordon Nagle (Note 4)	20.2.2003	–	–	375,000	–	–	–
Ms. Clara Ho (Note 4)	20.2.2003	–	–	375,000	–	–	–
Mr. Kwan Kit Tong, Kevin	20.2.2003	–	–	375,000	375,000	375,000	0.13%

Notes:

- (1) Each of the above directors is the personal beneficial owner of the share options granted to him or her.
- (2) Each of the directors’ interests represent his or her respective long positions in the underlying shares in the Company by virtue of options granted to the directors pursuant to the 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”).
- (3) Mr. David Tsoi exercised his option rights on 14 June 2007 in respect of the 750,000 option granted to him on 20 February 2003.

- (4) Both Mr. Nagle and Ms. Ho exercised their respective option rights on 3 April 2007. They subsequently resigned from directorship in the Company with effect from 13 April 2007 after The Applied Research Council, whose interests Mr. Nagle and Ms. Ho were on the Board to represent, ceased to be a substantial shareholder of the Company after 12 April 2007.
- (5) Options granted on 30 April 2002 were exercisable during the period from 17 November 2002 to 29 April 2012 at the exercise price of \$0.55 per share.
- (6) Options granted on 20 February 2003 were exercisable during the period from 20 February 2004 to 19 February 2013 at the exercise price of \$0.138 per share.
- (7) Options granted on 12 January 2007 were exercisable during the period from 12 January 2008 to 11 January 2017 at the exercise price of \$0.088 per share.

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 June 2007.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2007, the Company had adopted a code of conduct for directors' securities transactions 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 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 six months ended 30 June 2007.

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

As at 30 June 2007, 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", were interested in shares or underlying shares representing 5% or more in the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions in shares in the Company

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Type of interests</u>	<u>Number of shares</u>	<u>Approximate percentage of the Company's issued share capital</u>
North 22 Nominees Limited (<i>Note 1</i>)	Beneficial owner	Corporate	36,900,000	12.66%
Mr. Ng Lai Yick (<i>Note 1</i>)	Beneficial owner	Personal	3,134,744	1.08%
	Interest through a controlled corporation	Corporate	36,900,000	12.66%
QPL International Holdings Limited ("QPL") (<i>Note 2</i>)	Beneficial owner	Corporate	35,456,745	12.16%
Mr. Li Tung Lok (<i>Note 2</i>)	Interest through a controlled corporation	Corporate	35,456,745	12.16%
Madam Su Ching Wah (<i>Note 2</i>)	Interest of spouse	Family	35,456,745	12.16%

Notes:

- (1) Mr. Ng Lai Yick is deemed, by virtue of the SFO, to have an interest in the 36,900,000 shares held by North 22 Nominees Limited as the company is wholly-owned by him.
- (2) Mr. Li Tung Lok is the controlling shareholder of QPL and is deemed, by virtue of the SFO, to have an interest 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 have an interest in the 35,456,745 shares held by QPL.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares or underlying shares in the Company as at 30 June 2007.

AUDIT COMMITTEE

The Company established the Audit Committee on 29 October 2001 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules and with reference to the guidelines published by the Hong Kong Institute of Certified Public Accountants.

Mr. Yu Zhonghou resigned from the Board and the Audit Committee with effect from 1 February 2007 as in the announcement made by the Company on 30 January 2007. The vacancy was filled by the appointment of Mr. Chan Tze Ngon to the Board and the Audit Committee on 1 May 2007. The Audit Committee now consists of three independent non-executive directors, namely, Mr. David Tsoi, Chairman, Mr. Pang Hing Chung, Alfred and Mr. Chan Tze Ngon.

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

BOARD PRACTICES AND PROCEDURES

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

CORPORATE GOVERNANCE

At present, the roles of both the chairman and chief executive officer of the Company are carried out by the same individual, Mr. Chan Sek Keung, Ringo, the sole executive director of the Company. This is not in line with paragraph A.2.1 in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 of the GEM Listing Rules.

The Board considers that, with the present board structure and scope of business of the Group, there is no immediate need to separate the roles into two individuals as Mr. Chan is perfectly capable of distinguishing the priority of these roles in which he has been acting. The Board keeps the current structure under review and will propose changes as and when it becomes appropriate in the future.

Save as disclosed above, the Company was in compliance with the provisions of the Code during the Review Period.

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

Hong Kong, 13 August 2007

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication.