WAFER SYSTEMS

Wafer Systems Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 08198)

ANNUAL REPORT 2006

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The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com 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 and Mr. David Tsoi.

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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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. David Tsoi
Mr. Yu Zhonghou *(resigned on 1 Feb 2007)*

AUDIT COMMITTEE

Mr. David Tsoi *(Chairman)*
Mr. Pang Hing Chung, Alfred
Mr. Yu Zhonghou *(resigned on 1 Feb 2007)*

REMUNERATION COMMITTEE

Mr. David Tsoi *(Chairman)*
Mr. Pang Hing Chung, Alfred
Ms. Clara Ho
Mr. Yu Zhonghou *(resigned on 1 Feb 2007)*

COMPLIANCE OFFICER

Mr. Chan Sek Keung, Ringo

COMPANY SECRETARY

Mr. Pang Kin Man, Edmond

QUALIFIED ACCOUNTANT

Mr. Lau Kwok Wing

AUTHORISED REPRESENTATIVES

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

ADVISORS

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

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Grand Cayman KY1-1112
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Prosperity Millennia Plaza
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Butterfield House
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Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

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Hong Kong

China Construction Bank (Asia) Limited
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89 Queensway
Hong Kong

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36th Floor, Dah Sing Financial Centre
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Hong Kong

Bank of Communications Co., Limited Hong Kong Branch
20 Pedder Street
Central
Hong Kong

AUDITORS

CCIF CPA Limited
Certified Public Accountants
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Hong Kong

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WEBSITE ADDRESS

www.wafersystems.com

STOCK CODE

8198

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 2006 (the "Review Period").

During the Review Period, turnover decreased by approximately 11% to approximately HK$327 million (2005: HK$368 million) while net profit increased by approximately 253% to approximately HK$5.10 million (2005: HK$1.44 million).

FINANCIAL PERFORMANCE

	2006	2005	% Change
Turnover *(HK$'000)*	**326,611**	368,250	–11%
EBITDA *(HK$'000)*	**14,808**	9,213	+61%
Profit attributable to equity holders of the Company *(HK$'000)*	**5,101**	1,443	+253%
Basic earnings per share *(HK cents)*	**1.76**	0.50	+252%
Net current assets *(HK$'000)*	**61,001**	48,757	+25%
Current ratio	**1.47**	1.52	–3%
Debt ratio (debts/assets)	**68%**	61%	11%

During the Review Period, mainland China continued to contribute the Group's bulk business. Network infrastructure business accounted for the Group's main source of revenue, generating revenue of approximately HK$286 million (2005: HK$320 million). Revenue from professional services business amounted to approximately HK$38 million (2005: HK$46 million) while revenue from network software was approximately HK$2.2 million (2005: HK$2.4 million).

FINAL DIVIDEND

The Board does not recommend the payment of any dividend for the year ended 31 December 2006 (2005: Nil).

BUSINESS REVIEW

Competition in the market continued to be very keen during the Review Period. However, such competition had become more rationalized. As a result, with concerted efforts, the Group was able to turn in better profits in spite of the slightly lower turnover.

The overall better performance of the Group in 2006 has been mainly due to the higher value-added solutions and services of network infrastructure business.

For the past year, the Group continued its emphasis in the sector of service provider customers. Close working relations have been maintained with all four major telecommunication carriers in the Mainland. The Group's participation in Phase 2 of the China Telecom business network project ("CN2") in the first half of 2006 had its significance not only on the revenue aspect. It also signified the Group's advancement in technical ability in addition to further understanding the business of service providers. Such deeper knowledge into the systems requirements of the service providers is important for the Group to increase its technical and business competitiveness in offering seamless solutions when the market goes into the 3rd generation ("3G") era.

Professional services, while maintaining about the same percentage of total revenue as the year before, has also returned a better margin during the year. These reflected the higher satisfaction level from enterprise customers; especially multi-national corporation ("MNCs") customers on whom your Group has always place high priority.

The policy to stay focused in our core business areas has proved most appropriate. Therefore, the Group continued to invest to improve our competitive strength to equip ourselves for next generation network ("NGN") readiness. With the second phase of Internet protocol ("IP") based communications further enhanced technologically, the Group has started to get itself ready for the third phase. The ultimate NGN era will see the network used as a platform to enable collaboration and inter-reaction of different applications, converged real time communications, and various other services. Technically, the Group is now more capable than ever in providing its customers the professional services in networking.

Enhancement of the suite of IP NGN management software, which the Group has consolidated last year, continued during the Review Period. Productizing them has made them now more readily available for both service provider and enterprise market applications.

The Group's dedication to align partners' collaborations has given us the ability to master advanced technologies. It is this ability that made us an important Partner for Unified Call Centre Technology of Cisco Systems Inc. in the Asia Pacific area as well as one of it's first Advanced Specialization Partner in the areas of network security, IP telephony and wireless communications. We are also close working partners with other well-known names in the technology field.

PROSPECTS

The economic growth in China being witnessed now will continue with its open door policy. This will encourage the expansion of the enterprise market further when enterprises, both local and MNCs, invest on higher efficiency communications. With the strong technical capabilities of the Group's networking engineers, we shall benefit from the ability to provide high value advanced professional services in consultancy services to the enterprise market.

With the emergence of new technology, opportunity for high growth will be available for companies that have the technical capability as well as a reputation for good customer satisfaction. The Group will benefit accordingly since it has been investing in this direction for the past years and has been a pioneer in the areas of unified communications and advanced communications security.

For the telecommunications sector, your Group foresees a reasonable level of growth in business in 2007. Telecom service providers will speed up their investment on IP network infrastructure. This will be even more so with the issue of the 3G licences, which has been reported widely as an imminent move on the part of the Chinese government. When this happens, the Group will benefit from its established good relationship with the telecom service providers and our ability to propose tailor made solutions to match their needs. The fact that the Group has been working on testing trials on 3G with solution and system vendors will put the Group in a favourable competing position.

The reputation of delivering good services and high concern for customer satisfaction will continue to place the Group in a very favourable position. The deeper knowledge into the operations of the service providers will enable the Group to present technical and business proposals to the service providers, which are in seamless match of their needs. Such better understanding is also important for the Group in its future direction of software development.

In the past, we were more focused on infrastructure projects for both service providers and MNCs. Now, we have begun to focus on value-added solutions of our own. We have formed a dozen of hot solutions ready for release in the near future. Some are integrated with Cisco and other worldwide leading vendors and some are designed to fulfil the requirements of specific industries. They are all for the latest communication technology deployment and subscriber management.

Continuing to place high importance on technology up-grading, customer satisfaction, congenial partnership with technology leaders and the perseverance for self-improvement, I am confident that the Group will continue to grow and be able to take on the opportunities available to us in the coming year and beyond.

CONCLUSION

The Group has been floated on the Growth Enterprise Market of the Hong Kong Stock Exchange for five years now. Over this period of time, in spite of the very keen competition in the market place, your Group has been able to stay viable and financially healthy. At the same time, the Group has continued to upgrade its technological capability, align collaboration with technology leaders and to win the praise of customers. We have prepared ourselves for future challenges and the satisfaction in overcoming them.

For this good foundation, I have to thank the entire staff for their concerted and incessant hard work over the years. The emphasis on our corporate values will always be there as a vital driving force behind us in this 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 support to me personally and contributions of time and efforts to the Group during the year.

CHAN Sek Keung, Ringo
Chairman and Chief Executive Officer

Hong Kong, 27 March 2007

EXECUTIVE DIRECTOR

Mr. Chan Sek Keung, Ringo, aged 47, is the founder, the Chairman and Chief Executive Officer 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 44, 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 35, is a non-executive director and a member of the Remuneration Committee of the Board. 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, Kevin, aged 48, is a non-executive director. Mr. Kwan joined the Group in May 2001. He is a director and the Chief Executive Officer of QPL International Holdings Limited ("QPL"), a substantial shareholder of the Company, and the nominee of QPL on the Board. He is also a director of ASAT Holdings Ltd., a public listed company in the United States. 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 45, is an independent non-executive director and a member of both of the Audit Committee and Remuneration Committee of the Board. 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. David Tsoi, aged 59, is an independent non-executive director and chairman of both the Audit Committee and Remuneration Committee of the Board. Mr. Tsoi was appointed as an independent non-executive director of the Company since October 2001. A Certified Public Accountant by profession Mr. Tsoi currently practises as Director of Alliott, Tsoi CPA Limited. Mr. Tsoi holds a Master's degree in Business Administration from the University of East Asia, Macau. He is 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 of Canada and Institute of Chartered Accountants of England & Wales. He is also a Fellow Member of the Hong Kong Institute of Directors.

Mr. YU Zhonghou, aged 55, is an independent non-executive director and a member of both the Audit Committee and the Remuneration Committee of the Board. Mr. Yu was appointed an independent non-executive director of the Company in September 2004. During the year under review, Mr. Yu was 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 38, 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. 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 59, joined the Group in August 2001, is the company secretary. Mr. Pang has more than 30 years of working experience. Mr. Pang is a Fellow Member of the Institute of Chartered Secretaries of UK and Hong Kong Institute of Chartered Secretaries. He is also a Fellow Member of the Hong Kong Institute of Directors and holder of its Postgraduate Diploma in Corporate Governance and Directorship issued jointly with the Hong Kong Baptist University.

Mr. Yau Kin Wa, aged 38, joined the Group in June 1999 and was the qualified accountant and finance manager of the Group during the year till 29 June 2006 when he resigned from 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. Lau Kwok Wing, aged 32, joined the Group in July 1999. He was promoted to the position of finance manager and qualified accountant of the Group with effect from 29 June 2006. Mr. Lau holds a Postgraduate Diploma in Corporate Finance from The Hong Kong Polytechnic University and is a member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

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 other loans.

The Group remained healthy in the financial and liquidity position during the Review Period. As at 31 December 2006, the Group had net current assets of approximately HK$61.0 million, a 25% increase over last year end of HK$48.8 million. The current ratio dropped slightly from 1.52 to 1.47. Net current assets included bank balances and cash of approximately HK$47.3 million (2005: HK$17.1 million), bank borrowings of approximately HK$49.8 million (2005: HK$48.3 million) and current portion of other loans of approximately HK$23.8 million (2005: Nil).

Non-current portion of other loans at year end amounted to approximately HK$5.6 million (2005: Nil).

As at 31 December 2006, 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 2006, the Group had contracts on hand for sales amounting to approximately HK$20.2 million (2005: HK$28.9 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 7 to the financial statements.

CHARGES ON GROUP ASSETS

As at 31 December 2006, the Group had a pledged bank deposit of approximately HK$5.0 million (2005:4.6 million) and certain trade receivables of approximately HK$6.9 million (2005: Nil) for securing certain banking facilities.

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

GEARING RATIO

As at 31 December 2006, the gearing ratio, i.e. total liabilities over total assets, slightly increased to approximately 0.68 from approximately 0.61 as at 31 December 2005.

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.

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

There are no plans for any significant investments in capital assets and sources of funding.

EMPLOYEE INFORMATION

As at 31 December 2006, the Group had 170 employees comprising 21 employees based in Hong Kong and 149 employees based in mainland China. Total employee expense, excluding for directors, was approximately HK$21.5 million (2005: HK$18.2 million) during the Review Period. The Group continues to provide remuneration package to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides 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.

(a) Corporate Governance Practices

The Company applies the principles set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM Listing Rules") to provide a sound system of checks and balance in the leadership, executive management and business operations of the Group.

In practising corporate governance in line with, sometimes exceeding, the Code provisions, the Directors are conscientious as to the transparency of operations of the Company for the benefits of its shareholders and the investing public.

During the year under review, the Company complied with all the Code provisions except that the roles of Chairman and the Chief Executive Officer of the Company have been performed by the same individual, Mr. Ringo Chan.

The Board considers that, with the present board structure and scope of business of the Group, there is no immediate need to divide the two roles between two individuals, as Mr. Chan is able to perform these two roles to the satisfaction of the Board. The Board keeps the current structure under review and will propose changes as and when it becomes appropriate in the future.

Also, the Articles of Association of the Company were amended at the Annual General Meeting held on 28 April 2006 so that all directors, including the chairman and managing director, are now subject to retirement by rotation at least every three years.

To tie in with this requirement change, a new service contract with Mr. Chan was signed.

(b) Directors' securities transactions

The Company has adopted a code of conduct on terms no less exacting than that required in Rules 5.48 and 5.68 of the GEM Listing Rules (GLR) on directors' transactions in the securities of the Company.

Specific enquiries have been made to all directors and they have all confirmed their compliance with the Company's code of conduct during the year.

(c) Board of Directors

The Board was made up of the following directors who served throughout the year 2006:–

Executive director:–
Mr. Ringo Chan

Non-executive directors:–
Mr. Alasdair Nagle, Ms. Clara Ho and Mr. Kevin Kwan

Independent non-executive directors:–
Mr. David Tsoi, Mr. Alfred Pang and Mr. YU Zhonghou

During the year, the Board met five times with attendance as follows:–

Director	**Attendance**
Mr. Ringo Chan	5/5
Mr. Alasdair Nagle	3/5
Ms. Clara Ho	5/5
Mr. Kevin Kwan	5/5
Mr. David Tsoi	5/5
Mr. Alfred Pang	5/5
Mr. Yu Zhonghou	3/5

The board operated along the guidelines of the Code during the year. It met regularly to discuss and formulate the overall policy and business strategy of the Group. During the year, five board meetings were held to set the annual budget, monitor performance, discuss annual and quarterly results and to discuss other matters of importance and not delegated to management.

The division of decision making responsibilities between the Board and management is set out in the written guidelines while the day-to-day operational matters of the Group have been delegated to management in accordance with such written guidelines.

Throughout the year, the Company has complied with the requirements of the GEM Listing Rules by having three independent non-executive directors on the board, one of whom is a practicing certified public accountant.

During the year, all independent non-executive directors re-confirmed their respective independence and complied the guidelines of rule 5.09 of the GEM Listing Rules.

Apart from the fact that Mr. Alasdair Nagle and Ms. Clara Ho are both employees of HSBC Private Equity (Asia) Limited and were nominated to the Board by the Applied Research Council, a substantial shareholder of the Company, no other relationship existed amongst the individual directors.

(d) Chairman and chief executive officer

During the year, the roles of both the Chairman and Chief Executive Officer of the Company were performed by the same individual, Mr. Ringo Chan, an executive director of the Company.

(e) Non-executive directors

All non-executive directors of the Company have been appointed for a term of two years.

(f) Remuneration of directors

In determining the remuneration levels and packages of the directors, the Company took into account the prevailing practices and trends and reflected on the time commitment, duties and responsibilities of the directors and their contributions as well as the profitability of Group. Long-term inducements in the form of share options and performance bonuses were also employed.

The Remuneration Committee of the Board was set up in February 2004 with written terms of reference.

Its functions are to advise the Board on matters of policy relating to the organization and human resources matters of the Group. It also determines the remuneration and compensation levels of individual directors and the senior management staff.

The Remuneration Committee consisted of four directors: Mr. David Tsoi (Chairman), Mr. Alfred Pang, Ms. Clara Ho and Mr. Yu Zhonghou.

During the year, the Remuneration Committee met two times with attendance as follows:–

Director	**Attendance**
Mr. David Tsoi	2/2
Ms. Clara Ho	2/2
Mr. Alfred Pang	1/2
Mr. Yu Zhonghou	1/2

During the year, the Remuneration Committee reviewed the organization of the Group and its remuneration policy with reference to industry and market conditions.

In respect of the Directors, the Remuneration Committee reviewed the service agreement terms of all directors, including the Chief Executive Officer, and made recommendations to the Board on the renewal terms of the respective appointment contracts with all the directors.

The Remuneration Committee also determined the remuneration levels of the senior management.

(g) Nomination of directors

A nomination committee of the Board has not been set up.

The Board will set up the appropriate nomination procedure and process and determine the policy for the nomination of directors when such need arises.

(h) Auditors' remuneration

Messrs. Deloitte was re-appointed the Group's external auditors at the Annual General Meeting of the Company held on 28 April 2006. They subsequently resigned without carrying out any work for the Group in respect of the year ended 31 December 2006.

CCIF CPA Limited was appointed auditors of the Group at the Extraordinary General Meeting of the Company held on 30 December 2006. The Board has agreed an audit fee of HK$470,000 for the audit of the Group's accounts for the year ended 31 December 2006. For the sake of independence, the external auditors have not been engaged in any substantial non-audit services for the Group.

(i) Audit Committee

The Audit Committee of the Board was established in 2002, adopting the terms of reference as contained in "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

Members of the Committee include the following independent non-executive directors:–
Mr. David Tsoi *(Chairman)*
Mr. Alfred Pang
Mr. Yu Zhonghou

During the year, the Audit Committee met four times with attendance as follows:–

Director	Attendance
Mr. David Tsoi	4/4
Mr. Alfred Pang	4/4
Mr. YU Zhonghou	3/4

During the year the Audit Committee held meetings to discuss and review annual as well as quarterly results. It also discussed with the external auditors on significant audit, accounting and internal control issues arising from the external auditor's audit of the annual accounts for 2005. An overall review on the effectiveness of the system of internal control of the Group was conducted by the Audit Committee with due report made to the Board on 14 November 2006.

(j) Directors duty to prepare accounts

The Directors acknowledge that it is their responsibility for preparing the accounts of the Company and the Group to give a true and fair view of the state of affairs at the end of the financial year and of the profit or loss of the Company and the Group for the year.

For and on behalf of the Board
CHAN Sek Keung, Ringo
Chairman and Chief Executive Officer

Hong Kong, 27 March 2007

The directors present their annual report and the audited financial statements for the year ended 31 December, 2006.

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 17 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December, 2006 are set out in the consolidated income statement on page 31 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 26 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution represent the share premium less accumulated losses which in aggregate amounted to HK$45.9 million (2005: HK$45.5 million) as at 31 December, 2006. 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$841,000 in the acquisition of property, plant and equipment which mainly comprised computer equipment and tools. Details of such acquisition and other movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

DIRECTORS AND SERVICE CONTRACTS

The Directors 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, Kevin

Independent non-executive directors:

Pang Hing Chung, Alfred
David Tsoi
Yu Zhonghou *(resigned on 1 February 2007)*

The Company entered into a service contract with Mr. Chan Sek Keung, Ringo, executive director a term of three years from 1 January 2006 and subject to retirement by rotation in accordance with the Articles of Association of the Company.

Each of the non-executive directors and independent non-executive directors, except for Mr. Yu Zhonghou, were appointed for a term of two years from 1 April 2004, subject to retirement by rotation as required by the Articles of Association of the Company. Their appointment terms were renewed for a further term of two years from 1 April 2006 under the same level of remunerations.

Mr. Yu Zhonghou, independent non-executive director, was initially appointed for a term of two years from 23 September 2004, subject to retirement by rotation as required by the Articles of Association of the Company. His appointment was renewed for a further term of two years, under the same level of remuneration, from 1 April 2006 to have the appointment term in line with the other non-executive directors.

In accordance with Article 87 of the Company's Articles of association, Mr. Chan Sek Keung, Ringo and Mr. Pang Hing Chung, Alfred retire by rotation and, being eligible, offer themselves for re-election. The service contract of both directors who are now proposed for re-election are terminable by the Group within one year without payment of compensation other than statutory compensation.

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

As at 31st December, 2006, the interests and short positions of the directors, the chief executive and their respective associates in the shares, underlying shares and debentures or short positions and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions:

(a) Long positions 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	8,252,000	2.85%
	Interest through a controlled corporation*	56,400,000	19.45%
		64,652,000	22.30%

* 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 the underlying shares in the Company

Name of director	Capacity	Number of share options held	Number of underlying shares
Chan Sek Keung, Ringo	Beneficial owner	4,200,000	4,200,000
Alasdair Gordon Nagle	Beneficial owner	375,000	375,000
Clara Ho	Beneficial owner	375,000	375,000
Kwan Kit Tong, Kevin	Beneficial owner	375,000	375,000
Pang Hing Chung, Alfred	Beneficial owner	1,500,000	1,500,000
David Tsoi	Beneficial owner	750,000	750,000
		7,575,000	7,575,000

Save 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 31st December, 2006.

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2006, 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.

Long positions in ordinary shares of HK$0.01 each of 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 i)*	Beneficial owner	Corporate	48,460,000	16.71%
HSBC Private Equity Technology (Asia) Limited *(Note ii)*	Investment manager	Corporate	48,460,000	16.71%
HSBC Private Equity (Asia) Limited *(Note ii)*	Interest through a controlled corporation	Corporate	48,460,000	16.71%
North 22 Nominees Limited *(Note iii)*	Beneficial owner	Corporate	36,900,000	12.73%
Mr. Ng Lai Yick *(Note iii)*	Beneficial owner	Personal	3,134,744	1.08%
	Interest through a controlled corporation	Corporate	36,900,000	12.73%
QPL International Holdings Limited ("QPL") *(Note iv)*	Beneficial owner	Corporate	35,456,745	12.23%
Mr. Li Tung Lok *(Note iv)*	Interest through a controlled corporation	Corporate	35,456,745	12.23%
Madam Su Ching Wah *(Note iv)*	Interest of spouse	Family	35,456,745	12.23%

Notes:

(i) ARC is the beneficial owner of these shares.

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

HSBC Private Equity (Asia) Limited is deemed, by virtue of the SFO, to have an interest 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 have an interest 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 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 31 December, 2006.

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:

		Number of share options		
Types of participants	**Exercise price per share**	**Outstanding as at 1.1.2006**	**Lapsed during the year**	**Outstanding as at 31.12.2006**
	HK$			
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	4,255,000	(445,000)	3,810,000
		8,755,000	(445,000)	8,310,000

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 had been exercised since the date of grant and up to 31 December, 2006.

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 8,310,000 shares, representing approximately 2.87% of the issued share capital of the Company as at 31 December, 2006.

(b) Post-IPO Share Option Scheme

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

					Number of share options			
Type of participants	**Date of grant**	**Exercisable period**	**Closing price*** *HK$*	**Exercise price per share#** *HK$*	**Outstanding as at 1.1.2006**	**Granted during the year**	**Lapsed during the year**	**Outstanding as at 31.12.2006**
Directors:								
Chan Sek Keung, Ringo	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	1,200,000	–	–	1,200,000
Alasdair Gordon Nagle	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	375,000	–	–	375,000
Clara Ho	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	375,000	–	–	375,000
Kwan Kit Tong, Kevin	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	375,000	–	–	375,000
Pang Hing Chung, Alfred	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	750,000	–	–	750,000
David Tsoi	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	750,000	–	–	750,000
					3,825,000	–	–	3,825,000

Type of participants	Date of grant	Exercisable period	Closing price* HK$	Exercise price per share# HK$	Number of share options: Outstanding as at 1.1.2006	Granted during the year	Lapsed during the year	Outstanding as at 31.12.2006
Adviser	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	300,000	–	–	300,000
Employees	12.7.2002	12.7.2003 to 11.7.2012	0.385	0.384	2,326,000	–	(301,000)	2,025,000
	20.2.2003	20.2.2004 to 19.2.2013	0.138	0.138	2,382,000	–	(421,000)	1,961,000
	10.10.2003	10.10.2004 to 9.10.2013	0.142	0.142	165,000	–	(30,000)	135,000
	23.2.2004	23.2.2005 to 22.2.2014	0.160	0.165	1,624,000	–	(166,000)	1,458,000
	11.10.2004	11.10.2005 to 10.10.2014	0.124	0.124	580,000	–	(265,000)	315,000
					7,077,000	–	(1,183,000)	5,894,000
					11,202,000	–	(1,183,000)	10,019,000

* 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.

No options granted under this scheme had been exercised since the date of grant up to 31 December, 2006.

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.

Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

ARRANGEMENTS TO PURCHASE SHARES OF DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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.

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is set up by the management and is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual duties, responsibilities, experience, performance and comparable market practices.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 28 to the financial statements.

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 38% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 17% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 80% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 70% 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.

AUDITORS

Messrs. Deloitte Touche Tohmatsu resigned as auditors of the Company with effect from 8 December 2006 and CCIF CPA Limited were appointed as auditors of the Company to fill the casual vacancy with effect from 30 December 2006.

The financial statement accompanying this Annual Report have been audited by CCIF CPA Limited. A resolution will be submitted to the annual general meeting of the Company to be held on 27 April 2007 for their re-appointment.

Save as aforesaid, there have been no other changes of the auditors in the past three years.

On behalf of the Board of Directors

CHAN SEK KEUNG, RINGO
Chairman and Chief Executive Officer
Hong Kong, 27 March 2007

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF WAFER SYSTEMS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Wafer Systems Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 84, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 the reports.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

27 March 2007

Kwok Cheuk Yuen, Nickson
Practising Certificate Number P02412

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 *HK$'000*	2005 *HK$'000*
Turnover	*6*	326,611	368,250
Other income		639	1,615
Charges in materials and equipment		(268,055)	(310,684)
Employee benefits costs	*9*	(20,575)	(17,817)
Depreciation and amortisation		(4,647)	(4,431)
Other expenses		(23,812)	(32,151)
Finance costs	*8*	(4,104)	(2,707)
Total expenses		(321,193)	(367,790)
Profit before taxation	*9*	6,057	2,075
Taxation	*12*	(956)	(632)
Profit for the year		5,101	1,443
Attributable to:			
Equity holders of the Company		5,101	1,443
Earnings per share – Basic	*14*	HK 1.76 cents	HK 0.50 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	15	2,032	3,142
Software product development costs	16	7,753	7,527
		9,785	10,669
Current assets			
Inventories		5,602	5,866
Trade and other receivables	18	133,065	114,338
Pledged bank deposits	19	5,013	4,571
Cash and cash equivalents	20	47,276	17,072
		190,956	141,847
Current liabilities			
Trade and other payables	21	54,721	43,989
Tax payable	22	1,548	824
Bank borrowings	23	49,843	48,277
Other loans	24	23,843	–
Convertible bonds maturing within one year	25	–	–
		129,955	93,090
Net current assets		61,001	48,757
Total assets less current liabilities		70,786	59,426
Non-current liabilities			
Other loans	24	5,573	–
Net assets		65,213	59,426
Capital and reserves			
Share capital	26	2,900	2,900
Reserves	27	62,313	56,526
Total equity		65,213	59,426

The financial statements on pages 31 to 84 were approved and authorised for issue by the Board of Directors on 27 March 2007 and are signed on its behalf by:

CHAN Sek Keung, Ringo
Chairman and Chief Executive Officer

Director

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Investment in a subsidiary	*17*	–	–
Current assets			
Trade and other receivables	*18*	59,325	58,548
Current liabilities			
Trade and other payables	*21*	9,923	9,591
Convertible bonds maturing within one year	*25*	–	–
		9,923	9,591
Net current assets		49,402	48,957
Net assets		49,402	48,957
Capital and reserves			
Share capital	*26*	2,900	2,900
Reserves	*27*	46,502	46,057
Total equity		49,402	48,957

The financial statements on pages 33 to 84 were approved and authorised for issue by the Board on 27 March 2007 and are signed on its behalf by:

CHAN Sek Keung, Ringo
Chairman and Chief Executive Officer

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Share capital *HK$'000*	Share premium *HK$'000*	Share-based payment reserve *HK$'000*	Statutory surplus reserve fund *HK$'000*	Enterprise expansion fund *HK$'000*	Staff welfare fund *HK$'000*	Exchange reserve *HK$'000*	Retained earnings/ (Accumulated losses) *HK$'000*	Total *HK$'000*
At 1 January 2005	2,900	55,824	453	1,003	502	502	–	(3,901)	57,283
Exchange differences on translation of foreign operations	–	–	–	–	–	–	566	–	566
Profit for the year	–	–	–	–	–	–	–	1,443	1,443
Total recognised income and expenses for the year	–	–	–	–	–	–	566	1,443	2,009
Recognition of equity settled share-based payments	–	–	134	–	–	–	–	–	134
At 31 December 2005	2,900	55,824	587	1,003	502	502	566	(2,458)	59,426
Transfer to statutory surplus reserve	–	–	–	502	–	(502)	–	–	–
At 1 January 2006	2,900	55,824	587	1,505	502	–	566	(2,458)	59,426
Exchange differences on translation of foreign operations	–	–	–	–	–	–	630	–	630
Profit for the year	–	–	–	–	–	–	–	5,101	5,101
Total recognised income and expenses for the year	–	–	–	–	–	–	630	5,101	5,731
Recognition of equity settled share-based payments	–	–	56	–	–	–	–	–	56
At 31 December 2006	2,900	55,824	643	1,505	502	–	1,196	2,643	65,213

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 *HK$'000*	2005 *HK$'000*
OPERATING ACTIVITIES			
Profit before taxation		6,057	2,075
Adjustments for:			
Interest income		(227)	(155)
Interest expense		4,104	2,707
Depreciation and amortisation		4,647	4,431
Loss on write off of property, plant and equipment		15	–
Provision for inventories		551	–
Share-based payment expenses		56	134
Impairment loss on trade and retention money receivables		391	3,685
Reversal of impairment loss on trade and retention money receivables recognised in previous years		(1,444)	–
Operating cash flows before movements in working capital		14,150	12,877
(Increase)/decrease in inventories		(333)	6,029
Increase in trade and other receivables		(18,035)	(42,951)
Increase in trade and other payables		10,732	14,354
Cash generated from/(used in) operations		6,514	(9,691)
PRC income tax paid		(232)	(674)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		6,282	(10,365)
INVESTING ACTIVITIES			
Interest received		227	155
Purchase of property, plant and equipment		(841)	(1,764)
Proceeds from disposal of property, plant and equipment		–	66
Expenditure on software product development		(2,802)	(2,347)
Increase in pledged bank deposits		(442)	(4,562)
NET CASH USED IN INVESTING ACTIVITIES		(3,858)	(8,452)
FINANCING ACTIVITIES			
Interest paid		(4,104)	(2,707)
Net borrowings raised from/(repayment of) short-term bank loans		277	(4,125)
Net increase in/(repayment of) trust receipts and import loans		6,947	(1,235)
Net borrowings raised from other loans		29,416	–
Redemption of convertible bonds		–	(3,000)
NET CASH FROM/(USED IN) FINANCING ACTIVITIES		32,536	(11,067)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		34,960	(29,884)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		11,414	40,752
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		902	546
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	47,276	11,414

For the year ended 31 December 2006

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability. The Company's shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), being the measurement currency of the Company and its subsidiaries (the "Group").

The Company is an investment holding company. 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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised HKFRSs that are first effective for accounting periods beginning on or after 1 January 2006 or available for early adoption for the current accounting period of the Group. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented.

Note 3 summarises the accounting policies of the Group after the adoption of these developments to the extent that they are relevant to the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New standard, amendment or interpretations that have been issued but are not yet effective

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact to the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[6]

[1] *Effective for annual periods beginning on or after 1 January 2007*
[2] *Effective for annual periods beginning on or after 1 March 2006*
[3] *Effective for annual periods beginning on or after 1 May 2006*
[4] *Effective for annual periods beginning on or after 1 June 2006*
[5] *Effective for annual periods beginning on or after 1 November 2006*
[6] *Effective for annual periods beginning on or after 1 May 2007*

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collectively includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Statement of Compliance (Continued)

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical costs basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

(c) Subsidiaries

Subsidiaries are entitles controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries (Continued)

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at costs less impairment losses.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment loss.

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 of 3 years, using the straight line method.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and it residual value, if any, are reviewed annually.

(e) Impairment of Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, and impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than properties carried at revalued amounts);

– intangible assets; and

– investments in subsidiaries.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Impairment of Assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year which the reversals are recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Software Product Development Costs

Research and development expenditures

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

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 3(e)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to income statement on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– capitalised development costs 3 years

Both the period and method of amortisation are reviewed annually.

(g) 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 the estimated costs of completion and the estimated cost necessary to make the sale.

(h) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 3(e)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 3(e)).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with bank and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(j) Convertible Bonds

Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in income statement on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained earnings.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Trade and Other Payables

Trade and other payables are initially measured at fair value. Trade and other payables are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they related to items recognised directly in equity, in which case they are recognised in equity.

Current tax is expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Income Tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Provisions and Contingent Liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where its is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

– Sales of network equipment and software are recognised when the network equipment and software are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

– 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 effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Translation of Foreign Currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(p) Operating Lease Charges

Leases are classified as operating leases whenever, the terms of the lease do not transfer substantially all the risks and rewards of ownership to the lessees.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Borrowing Costs

All borrowing costs are recognised as and included in finance costs in the income statement in the period in which they are incurred.

(r) Employee Benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payment

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a share-based payment reserve within equity. The fair value is measured at grant date using Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Employee Benefits (Continued)

(ii) Share-based payment (Continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share-based payment reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based payment reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to the retained earnings).

The Group has taken advantage of the transitional provisions set out in HKFRS 2 under which the new recognition and measurement policies applies to granted after 7 November 2002 and had not yet vested at 1 January 2005.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related Parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

ii) the Group and the party are subject to common control;

iii) the party is an associate of the group or a joint venture in which the Group is a venturer;

iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

v) the party is a close family member of a party referred to in note 3(s)(i) or is an entity under the control, joint control or significant influence of such individuals; or

vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(t) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Segment Reporting (Continued)

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financial expenses.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

a) Impairment of Trade Receivables

Note 3 describes that trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in income statement when there is objective evidence that the receivables are not recoverable.

Management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Company's majority of working capital is devoted to trade receivables. In determining whether impairment on trade receivable occurred, the Company takes into consideration the ageing status and the likelihood of collection. An impairment loss on trade receivables is recognised when they are unlikely to be collected. The measurement of impairment loss requires the Company to estimate the future cash flows expected to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate impairment has been made in the financial statements in light of the historical records of the Company and the current economic environment.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

b) Recoverability of Software Product Development Costs

During the year, the management reconsidered the recoverability of its internally-generated intangible asset arising from the Group's software product development expenditure, which is included in its consolidated balance sheet at 31 December 2006 at HK$7,753,000 (2005: HK$7,527,000). The project continues to progress in a satisfactory manner, and customer reaction has reconfirmed management's previous estimates of anticipated revenues from the project. However, keen competition has caused management to reconsider its assumptions regarding future market shares and anticipated margins on these products. Cash flow forecasts have been carried out and management is confident that the carrying amount of the asset will be recovered in full, even if returns are reduced. This situation will be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include pledged bank deposits, trade and other receivables, bank balances and cash, trade and other payables, bank borrowings and other loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Currency Risk

The Group collects some of its revenue and some of expenditures in Renminbi ("RMB") are also denominated in RMB. On the other hand, the majority of purchase were denominated in United. States. dollar ("USD") which are pegged with HK$.

RMB is not a freely convertible currency. Future exchange rates of RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the government of the People's Republic of China (the "PRC"). The exchange rates may also be affected by economic developments and political changes domestically and internationally, and supply and demand of RMB. The appreciation or devaluation of RMB against HK$ and USD may have positive or negative impacts on the results of operations of the Group.

Some of trade receivables and bank borrowings of the Group are denominated in RMB. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

b) Credit Risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses, if any, are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

The credit risk on trade receivables is concentrated on a few of customers. However, the management considers the strong financial background and good creditability of these customers, and there is no significant credit risk.

c) Interest Rate Risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks which are all short term in nature. Interest bearing financial liabilities are include bank borrowings with fixed and floating interest rates and other loans with fixed interest rates. Therefore, any future variations in interest rate will not have a significant impact on the results of the Group.

d) Liquidity Risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short or longer term.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

e) Fair Values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2005.

f) Estimation of Fair Values

The following summaries the major methods and assumptions used in estimating the fair values of the following financial instruments.

Interest-bearing loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

g) Sensitivity Analysis

In managing interest rate and foreign currency risks that the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At 31 December 2006, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before taxation by approximately HK$247,000 (2005: HK$256,000) so far as the effect on interest-bearing financial instruments is concerned.

6. TURNOVER

The Company is an investment holding company. The principal activities of the Group are 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.

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. An analysis of the Group's turnover for the year is as follows:

	2006 *HK$'000*	2005 *HK$'000*
Network infrastructure	286,398	319,903
Network professional services	38,008	45,927
Network software	2,205	2,420
	326,611	368,250

7. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

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

7. SEGMENT REPORTING (Continued)

Business segments (Continued)

Analysis by business segments is as follows:

	Revenue		Results	
	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*
Network infrastructure	286,398	319,903	9,547	3,498
Network professional services	38,008	45,927	1,854	1,429
Network software	2,205	2,420	(1,537)	(1,421)
	326,611	368,250	9,864	3,506
Unallocated corporate income			412	1,460
Interest income			227	155
Unallocated corporate expenses			(342)	(339)
Finance costs			(4,104)	(2,707)
Profit before taxation			6,057	2,075
Taxation			(956)	(632)
Profit for the year			5,101	1,443

For the year ended 31 December 2006

7. SEGMENT REPORTING (Continued)

Business segments (Continued)

	2006 *HK$'000*	2005 *HK$'000*
Assets		
Segment assets		
– network infrastructure	124,579	106,823
– network professional services	4,915	5,013
– network software	9,668	9,483
Unallocated corporate assets	61,579	31,197
Total Assets	200,741	152,516
Liabilities		
Segment liabilities		
– network infrastructure	54,722	43,989
Unallocated corporate liabilities	80,806	49,101
Total Liabilities	135,528	93,090
OTHER INFORMATION		
Capital expenditure		
– network infrastructure	633	1,216
– network professional services	147	485
– network software	2,863	2,410
	3,643	4,111
Depreciation and amortisation		
– network infrastructure	1,590	1,672
– network professional services	368	683
– network software	2,689	2,076
	4,647	4,431
Impairment loss on trade and retention money receivables	391	3,685

7. SEGMENT REPORTING (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:

	Revenue	
	2006 *HK$'000*	2005 *HK$'000*
PRC, other than Hong Kong	305,263	351,880
Hong Kong	21,348	16,370
	326,611	368,250

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

	Carrying amount of segment assets		Capital expenditure incurred during the year	
	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*
PRC, other than Hong Kong	191,104	142,271	3,630	3,466
Hong Kong	9,637	10,245	13	645
	200,741	152,516	3,643	4,111

8. FINANCE COSTS

	2006 *HK$'000*	2005 *HK$'000*
Interest expenses on bank borrowings wholly repayable within five years	3,127	2,707
Interest expenses on other loans wholly repayable within five years	977	–
	4,104	2,707

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging/(crediting):

	2006 *HK$'000*	2005 *HK$'000*
Directors' emoluments *(note 10)*	1,545	1,561
Other staff retirement benefits scheme contributions	3,030	2,205
Salaries, wages and other benefits	18,408	15,971
Share-based payment expenses	24	68
Less: Staff costs capitalised in software product development costs	(2,432)	(1,988)
	20,575	17,817
Impairment loss on trade and retention money receivables	391	3,685
Amortisation of software product development costs (included in depreciation and amortisation)	2,689	2,076
Auditors' remuneration	470	470
Depreciation of property, plant and equipment	1,958	2,355
Loss on write off of property, plant and equipment	15	–
Operating lease rentals in respect of minimum lease payments of land and buildings	2,096	2,729
Research and development costs	329	289
Cost of inventories	268,055	310,684
Exchange gain	(351)	(674)
Interest income	(227)	(155)
Reversal of impairment loss on trade and retention money receivables recognised in previous years	(1,444)	–

10. DIRECTORS' EMOLUMENTS

	Year ended 31 December 2006							
	Chan Sek Keung, Ringo *HK$'000* *note 1*	Alasdair Gordon Nagle *HK$'000* *note 2*	Clara Ho *HK$'000* *note 2*	Kwan Kit Tong, Kevin *HK$'000* *note 2*	Pang Hing Chung, Alfred *HK$'000* *note 3*	David Tsoi *HK$'000* *note 3*	Yu Zhonghou *HK$'000* *note 3, 4*	Total *HK$'000*
Fees	–	–	–	–	120	120	72	312
Other emoluments								
Salaries and other benefits	1,191	–	–	–	–	–	–	1,191
Contributions to retirement benefits schemes	12	–	–	–	–	–	–	12
Share-based payment expenses	9	3	3	3	6	6	–	30
Total emoluments	1,212	3	3	3	126	126	72	1,545

Note 1: Chairman and executive director
Note 2: Non-executive directors
Note 3: Independent non-executive directors
Note 4: Resigned on 1 February 2007

10. DIRECTORS' EMOLUMENTS (Continued)

	Year ended 31 December 2005							
	Chan Sek Keung, Ringo	Alasdair Gordon Nagle	Clara Ho	Kwan Kit Tong, Kevin	Pang Hing Chung, Alfred	David Tsoi	Yu Zhonghou	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	note 1	*note 2*	*note 2*	*note 2*	*note 3*	*note 3*	*note 3*	
Fees	–	–	–	–	120	120	72	312
Other emoluments								
Salaries and other benefits	1,176	–	–	–	–	–	–	1,176
Contributions to retirement benefits schemes	12	–	–	–	–	–	–	12
Share-based payment expenses	19	6	6	6	12	12	–	61
Total emoluments	1,207	6	6	6	132	132	72	1,561

Note 1: Chairman and executive director
Note 2: Non-executive directors
Note 3: Independent non-executive directors

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.

11. FIVE HIGHEST PAID EMPLOYEES

The aggregate emoluments of the five highest paid individuals included one (2005: one) executive director of the Company, whose emoluments are included in note 10 above. The aggregate emoluments of the remaining four (2005: four) highest paid individuals are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Basic salaries and allowances	1,972	2,036
Retirement benefits scheme contributions	106	44
Share-based payment expenses	13	24
	2,091	2,104

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

12. TAXATION

(a) Income tax in the consolidated income statement represents:

	2006 *HK$'000*	2005 *HK$'000*
Current tax – Provision for the PRC enterprise income tax		
Provision for the year	956	632
Deferred taxation		
Origination and reversal of temporary differences *(note 29)*	–	–
	956	632

Hong Kong Profits Tax has not been provided for in the financial statements as the Group has sufficient taxation losses brought forward to offset against the estimated assessable profits for the years ended 31 December 2006 and 2005.

The charge represents PRC income tax calculated on the estimated assessable profit for the year at the rates applicable to respective PRC subsidiaries.

For the year ended 31 December 2006

12. TAXATION (Continued)

(a) Income tax in the consolidated income statement represents: (Continued)

Pursuant to the relevant laws and regulations in the PRC, the Company's PRC subsidiaries are entitled to the 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 year, 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 has not used of its tax exemption period as its first profit-making year of operation has not been started yet.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

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

	2006 *HK$'000*	2005 *HK$'000*
Profit before taxation	6,057	2,075
Notional tax at the rates applicable to profits in the tax jurisdictions concerned	(1,403)	(363)
Tax effect of non-deductible expenses	(35,907)	(44,592)
Tax effect of non-taxable income	37,488	44,223
Tax effect of unrecognised tax losses	(1,321)	(50)
Tax effect of utilisation of tax losses previously not recognised	187	227
Tax effect of tax concessionary rate granted to PRC subsidiaries	–	(33)
Others	–	(44)
	(956)	(632)

13. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company included a profit of HK$389,000 (2005: HK$1,445,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of approximately HK$5,101,000 (2005: HK$1,443,000) and the weighted average of 289,944,745 (2005: 289,944,745) ordinary shares in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share for the years ended 31 December 2006 and 2005 was the same as the basic earnings per share as the exercise price of the Company's outstanding share option was higher than the fair price per share of the Company during the years ended 31 December 2006 and 2005.

For the year ended 31 December 2006

15. PROPERTY, PLANT AND EQUIPMENT

The Group

	Computer equipment HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Tools HK$'000	Total HK$'000
Cost					
At 1 January 2005	9,211	1,825	438	5,461	16,935
Additions	295	71	450	948	1,764
Exchange differences	90	19	6	62	177
Disposals	(24)	–	–	(239)	(263)
At 31 December 2005	9,572	1,915	894	6,232	18,613
Additions	261	102	256	222	841
Exchange differences	98	21	7	75	201
Disposals	(338)	(179)	–	(23)	(540)
At 31 December 2006	9,593	1,859	1,157	6,506	19,115
Accumulated amortisation and depreciation					
At 1 January 2005	7,505	1,539	355	3,757	13,156
Charge for the year	942	201	143	1,069	2,355
Exchange differences	82	15	6	54	157
Written back on disposals	(24)	–	–	(173)	(197)
At 31 December 2005	8,505	1,755	504	4,707	15,471
Charge for the year	705	127	221	905	1,958
Exchange differences	92	19	6	62	179
Written back on disposals	(335)	(179)	–	(11)	(525)
At 31 December 2006	8,967	1,722	731	5,663	17,083
Net book value					
At 31 December 2006	626	137	426	843	2,032
At 31 December 2005	1,067	160	390	1,525	3,142

16. SOFTWARE PRODUCT DEVELOPMENT COSTS

The Group

	HK$'000
Cost	
At 1 January 2005	13,155
Additions	2,347
At 31 December 2005	15,502
Additions	2,802
Exchange differences	136
At 31 December 2006	18,440
Accumulated amortisation	
At 1 January 2005	5,899
Charge for the year	2,076
At 31 December 2005	7,975
Charge for the year	2,689
Exchange differences	23
At 31 December 2006	10,687
Net book value	
At 31 December 2006	7,753
At 31 December 2005	7,527

Amortisation of intangible assets is recognised as an expense on a straight-line basis over their useful lives with the period of not exceeding three years.

The amortisation charge for the year is included in “Depreciation and amortisation” in the consolidated income statement.

17. INVESTMENTS IN A SUBSIDIARY

	The Company	
	2006 *HK$'000*	2005 *HK$'000*
Unlisted shares, at cost	10	10
Less: Provision for impairment loss	(10)	(10)
	–	–

As at 31 December 2006, details of the Company's principal subsidiaries were as follows:

Name of Subsidiary	Place of incorporation/ establishment and operations	Nominal value of issued and paid up/ registered capital	Group's effective interest	Direct	Indirect	Principal activities
Wafer Systems Holdings Limited*	Hong Kong	HK$10,000	100%	100%	–	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#	USD1,500,000	100%	–	100%	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#	USD210,000	100%	–	100%	Operation of businesses in network infrastructure, provision of network professional services and sales of proprietary network software

17. INVESTMENTS IN A SUBSIDIARY (Continued)

Name of Subsidiary	Place of incorporation/ establishment and operations	Nominal value of issued and paid up/ registered capital	Group's effective interest	Direct	Indirect	Principal activities
Wafer Systems (China) Limited	Hong Kong	HK$10,000	100%	–	100%	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	100%	–	100%	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#	USD100,950	100%	–	100%	Research and development

* Directly held by the Company.

These are wholly-owned foreign 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.

18. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006 *HK$'000*	2005 *HK$'000*	2006 *HK$'000*	2005 *HK$'000*
Amounts due from a subsidiary	–	–	59,213	58,448
Trade receivables	113,079	84,061	–	–
Retention money receivables	10,696	20,724	–	–
Other receivables	7,458	3,285	112	100
Prepaid maintenance charges	1,832	6,268	–	–
	133,065	114,338	59,325	58,548

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. All of the trade and other receivables are expected to be recovered within one year. The following is an aging analysis of trade receivables at the balance sheet date:

	The Group	
	2006 *HK$'000*	2005 *HK$'000*
Age		
0 to 30 days	40,652	39,755
31 to 60 days	32,044	15,016
61 to 90 days	6,056	6,101
91 to 180 days	17,285	16,063
181 to 365 days	15,909	5,856
Over 365 days	4,224	4,256
	116,170	87,047
Less: Impairment losses	(3,091)	(2,986)
	113,079	84,061

Retention money receivables represent progress payments receivable on the contract works of network infrastructure, with aged over 180 days.

18. TRADE AND OTHER RECEIVABLES (Continued)

Prepaid maintenance charges which is expected to be expensed within twelve months after the balance sheet date is classified under current asset as it is expected to be realised in the Company's normal operating cycle.

The carrying amounts of trade and other receivables approximate their fair value.

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the Group to which they relate:

	As at 31 December	
	2006	2005
	'000	*'000*
USD	3,863	2,353
RMB	89,643	69,543

19. PLEDGED BANK DEPOSITS

The deposits have been pledged to secure the banking facilities extended to the Group. Deposits amounting to HK$3,482,000 (2005: HK$3,482,000) carry floating interest rate of LIBOR. The remaining deposits amounting to HK$1,531,000 (2005: HK$1,089,000) carrying at prevailing market interest rate. The directors consider that the carrying amount of deposits approximate their fair value. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

20. CASH AND CASH EQUIVALENTS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Deposits with banks and other financial institutions	5,155	–
Cash at bank and in hand	42,121	17,072
Cash and cash equivalents in the consolidated balance sheet	47,276	17,072
Bank overdrafts *(note 23)*	–	(5,658)
Cash and cash equivalents in the consolidated cash flow statement	47,276	11,414

20. CASH AND CASH EQUIVALENTS (Continued)

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with a maturity of three months or less at prevailing market interest rates. The directors consider that the carrying amounts of these assets approximate their fair value.

	As at 31 December	
	2006	2005
	'000	*'000*
USD	1,062	522
RMB	39,058	13,403

Other than disclosed above, cash and cash equivalents of approximately HK$1,115,000 and HK$257,000 are denominated in HK$ at 31 December 2006 and 2005 respectively.

RMB is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and remittance of these funds out of the PRC is subject to exchange restriction imposed by the Government of PRC.

21. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	2006	2005
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to subsidiaries	–	–	9,923	9,579
Trade payables	43,480	31,859	–	–
Other payables	11,241	12,130	–	12
	54,721	43,989	9,923	9,591

21. TRADE AND OTHER PAYABLES (Continued)

All of the trade and other payables are expected to be settled or recognised as income within one year. The following is an aging analysis of trade payables at the balance sheet date:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Age		
0 to 30 days	11,996	17,831
31 to 90 days	26,637	10,792
91 to 180 days	3,024	1,046
181 to 270 days	171	344
271 to 365 days	778	60
Over 365 days	874	1,786
	43,480	31,859

The carrying amounts of trade and other payables approximate their fair value.

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the Group to which they relate:

	As at 31 December	
	2006	2005
	'000	*'000*
USD	3,471	2,307
RMB	16,395	14,380

22. TAX PAYABLE

	The Group	
	2006	2005
	HK$'000	*HK$'000*
PRC enterprise income tax		
At 1 January	824	866
Provided for the year	956	632
PRC enterprise income tax paid	(232)	(674)
At 31 December	1,548	824

23. BANK BORROWINGS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Bank overdrafts *(note 20)*	–	5,658
Short-term bank loans within one year	14,563	14,286
Trust receipts and import loans	35,280	28,333
	49,843	48,277
Secured	6,208	2,819
Unsecured	43,635	45,458
	49,843	48,277

Bank overdrafts are denominated in HK$. They arranged at prevailing market interest rates, repayable on demand and have been secured by pledged bank deposits.

Short-term bank loans are denominated in RMB. They are arranged at fixed interest rate of 6.138% per annum.

Trust receipts and import loans are denominated in USD, and arranged at prevailing market rates ranged from 7.34% to 8.25%.

23. BANK BORROWINGS (Continued)

The directors consider that the carrying amounts of bank borrowings approximate their fair values.

Included in bank borrowings are the following amounts denominated in a currency other than the functional currency of the Group to which they relate:

	As at 31 December	
	2006	2005
	'000	*'000*
USD	4,546	3,651
RMB	15,000	15,000

24. OTHER LOANS

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Current portion within 1 year	23,843	–
Non-current portion after 1 year but within 2 years	5,573	–
	29,416	–

Other loans represent advanced from finance institutions which are related to a major supplier of the Group. The amounts are unsecured, interest-bearing and have fixed terms of repayment.

Other loans amounting to HK$5,373,000 are denominated in USD and carry interest at rates ranging from 9.46% to 9.54%.

Other loans amounting to HK$24,043,000 are denominated in HKD and carry interest at rates ranging from 8.05% to 8.50%

25. CONVERTIBLE BONDS

	The Group and the Company	
	2006 *HK$'000*	2005 *HK$'000*
Liability component at the beginning of the year	–	3,000
Repayment during the year	–	(3,000)
Interest charged	–	–
	–	–

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 2004 discounted at a rate of 7% per annum. The bondholder, the Applied Research Council, 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.

In appliance with the HKFRSs, the convertible bonds are presented as the liability component and equity component separately in the balance sheet. At the date of issue, the liability component is the carrying amount of the financial liability by discounting the stream of future payments of interest and principle at the prevaility market rate which is 7%. The equity component is an embedded option to convert the liability into equity. The directors consider that the value of the equity component embedded in the convertible bonds is insignificant. Accordingly, no retrospective restatement is considered.

On 1 January 2005, the Company redeemed convertible bonds at face value of HK$3,000,000.

26. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2005, 31 December 2005 and 2006	500,000,000	5,000
Issued and fully paid:		
At 1 January 2005, 31 December 2005 and 2006	289,944,745	2,900

27. RESERVES

(a) The Group

	2006 *HK$'000*	2005 *HK$'000*
Share premium *(note i)*	55,824	55,824
Share-based payments reserve *(note 28)*	643	587
Statutory surplus reserve *(note ii)*	1,505	1,003
Enterprise expansion fund *(note iii)*	502	502
Staff welfare fund *(note iv)*	–	502
Exchange reserve *(note v)*	1,196	566
Retained earnings/(accumulated losses)	2,643	(2,458)
	62,313	56,526

Details of the movement in the above reserves during the year are set out in the consolidated statement of changes in equity on page 34.

Notes:–

i. Share premium

The application of the share premium is governed by Sections 48B of the Hong Kong Companies Ordinance.

27. RESERVES (Continued)

(a) The Group (Continued)

Notes:– (Continued)

ii. Statutory surplus reserve

In accordance with the Company Law of the PRC, companies are required to allocate 10% of their profit after tax to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the companies, respectively. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-in capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

iii. Enterprise expansion fund

The enterprise expansion fund is used for expanding the capital based of the PRC subsidiaries by means of capitalisation issue.

iv. Staff welfare fund

The staff welfare fund was previously provided to use for the welfare of the staff and workers of the Company, is capital in nature. However, according to the Ministry of Finance of the PRC announcement number 67 on 15 March 2006, pursuant to the Company Law of the PRC Sec 167, the reserve previously allocated to staff welfare fund will be deemed to be transferred to the statutory surplus reserve on 1 January 2006 and no subsequent profit distribution of staff welfare fund was needed.

v. Exchange reserve

The exchange reserve comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in theses foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(o).

27. RESERVES (Continued)

(b) The Company

	Share premium *HK$'000* *note 27(a)(i)*	Share-based payment reserve *HK$'000* *note 28*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2005	55,824	453	(11,799)	44,478
Profit for the year	–	–	1,445	1,445
Total recognised income and expenses for the year	–	–	1,445	1,445
Recognition of equity settles share-based payments	–	134	–	134
At 31 December 2005	55,824	587	(10,354)	46,057
Profit for the year	–	–	389	389
Total recognised income and expenses for the year	–	–	389	389
Recognition of equity settles share-based payments	–	56	–	56
At 31 December 2006	55,824	643	(9,965)	46,502

Notes:

Under the Companies Law (Revised) of the Cayman Islands, share premium is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital account.

27. RESERVES (Continued)

(b) The Company (Continued)

Notes: (Continued)

At 31 December 2006, the aggregate amount of the Company's reserves available for distribution to shareholders was approximately HK$45,859,000 (2005: HK$45,470,000) computing in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of approximately HK$55,824,000 (2005: HK$55,824,000) less accumulated losses of approximately HK$9,965,000 (2005:HK$10,354,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay off its debts as they fall due in the ordinary course of business.

28. 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. Options granted are exercisable for a period of not more than 10 years from the date of grant of the relevant options. 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.

28. SHARE OPTIONS (Continued)

a) Pre-Initial Public Offering ("IPO") share option scheme (Continued)

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	Date of grant	Exercisable period	Exercise price per share *HK$*	Number of share options: Outstanding at 1/1/2005	Forfeited during the year	Outstanding at 31/12/2005	Forfeited during the year	Outstanding at 31/12/2006
Directors	30/4/2002 *(note 2)*	17/11/2002 to 29/4/2012	0.55	3,750,000	–	3,750,000	–	3,750,000
Others	30/4/2002 *(note 2)*	17/11/2002 to 29/4/2012	0.55	5,968,000	(963,000)	5,005,000	(445,000)	4,560,000
				9,718,000	(963,000)	8,755,000	(445,000)	8,310,000
Number of options exercisable at 31 December 2006								8,310,000

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 for a period of not more than 10 years from the date of grant, within which there is a total vesting period of four years, starting from the first anniversary of the grant date at stepped annual increments of 25% of the total options granted.

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

28. 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:

			Year ended 31 December 2006 Number of share options				
Type of participants	Date of grant	Exercisable period	Exercise price per share *HK$*	Outstanding at 1/1/2006	Granted during the year	Forfeited during the year	Outstanding at 31/12/2006
Directors	20/2/2003	20/2/2004 to 19/2/2013	0.138	3,825,000	–	–	3,825,000
Employees	12/7/2002 *(note 2)*	12/7/2003 to 11/7/2012	0.384	2,326,000	–	(301,000)	2,025,000
	20/2/2003	20/2/2004 to 19/2/2013	0.138	2,382,000	–	(421,000)	1,961,000
	10/10/2003	10/10/2004 to 9/10/2013	0.142	165,000	–	(30,000)	135,000
	23/2/2004	23/2/2005 to 22/2/2014	0.165	1,624,000	–	(166,000)	1,458,000
	11/10/2004	11/10/2005 to 10/10/2014	0.124	580,000	–	(265,000)	315,000
Adviser *(note 1)*	20/2/2003	20/2/2004 to 19/2/2013	0.138	300,000	–	–	300,000
				11,202,000	–	(1,183,000)	10,019,000
Number of options exercisable at 31 December 2006							7,577,250

28. SHARE OPTIONS (Continued)

b) Post-IPO share option scheme (Continued)

			Year ended 31 December 2005 Number of share options				
Type of participants	Date of grant	Exercisable period	Exercise price per share *HK$*	Outstanding at 1/1/2005	Granted during the year	Forfeited during the year	Outstanding at 31/12/2005
Directors	20/2/2003	20/2/2004 to 19/2/2013	0.138	3,825,000	–	–	3,825,000
Employees	12/7/2002 *(note 2)*	12/7/2003 to 11/7/2012	0.384	2,981,000	–	(655,000)	2,326,000
	20/2/2003	20/2/2004 to 19/2/2013	0.138	3,034,000	–	(652,000)	2,382,000
	10/10/2003	10/10/2004 to 9/10/2013	0.142	290,000	–	(125,000)	165,000
	23/2/2004	23/2/2005 to 22/2/2014	0.165	2,404,000	–	(780,000)	1,624,000
	11/10/2004	11/10/2005 to 10/10/2014	0.124	828,000	–	(248,000)	580,000
Adviser *(note 1)*	20/2/2003	20/2/2004 to 19/2/2013	0.138	300,000	–	–	300,000
				13,662,000	–	(2,460,000)	11,202,000
Number of options exercisable at 31 December 2005							5,631,500

Note 1: This is an individual who rendered consultancy services in respect of the technology development to the Group without receiving any compensation. The Group granted share options to him for recognising his services similar to those rendered by other employees.

Note 2: The Group has not applied HKFRS2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions.

28. SHARE OPTIONS (Continued)

b) Post-IPO share option scheme (Continued)

These fair values were calculated using the Black-Scholes pricing model. The details were as follows:

	Grant dates of share options			
	20/2/2003	10/10/2003	23/2/2004	11/10/2004
Closing share price immediately before date of grant	HK$0.138	HK$0.142	HK$0.155	HK$0.124
Exercise price	HK$0.138	HK$0.142	HK$0.165	HK$0.124
Expected volatility	89.07%	69.88%	62.76%	59.19%
Expected options life	5 years	5 years	5 years	5 years
Risk-free interest rate	3.087%	3.983%	2.65%	2.98%
Expected dividend yield	N/A	N/A	N/A	N/A

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 1 year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of HK$56,000 for the year ended 31 December 2006 (2005: HK$134,000) in relation to share options granted by the Company.

29. DEFERRED TAX ASSETS NOT RECOGNISED

At the balance sheet date, the Group has unutilised accumulated tax losses of HK$9,333,000 (2005: HK$10,711,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation.

30. OPERATING LEASE COMMITMENTS

Total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2006 *HK$'000*	2005 *HK$'000*
Within one year	2,366	3,161
In the second to fifth year inclusive	989	787
	3,355	3,948

The lease payments represent the rental payable by the Group for certain buildings, the lease payments are fixed for an average of 1.5 years and no arrangements have been entered into for contingent rental payments.

31. EMPLOYEE RETIREMENT BENEFITS

i) The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The scheme is a defined contribution retirement plan. 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.

ii) The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The scheme is a defined contribution retirement plan. 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.

32. PLEDGE OF ASSETS

At 31 December 2006, the following assets were pledged to banks to secure the general banking facilities granted to the Group.:

	2006 *HK$'000*	2005 *HK$'000*
Pledged bank deposits *(note 19)*	5,013	4,571
Trade receivables	6,920	–
	11,933	4,571

33. CONTINGENT LIABILITIES

At the balance sheet date, the Company has issued corporate guarantees to banks in respect of banking facilities totalling HK$50,400,000 (2005: HK$54,300,000) granted to wholly owned subsidiaries.

34. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the year is as follows:

	2006 *HK$'000*	2005 *HK$'000*
Short-term employee benefits	2,730	2,792
Post-employment benefits	79	43
Share-based payments	19	44
	2,828	2,879

The emoluments of directors and key executives are determined by the remuneration committee and management respectively having regard to the performance of the individuals and market trends.

35. COMPARATIVE FIGURES

Certain comparative figures of the Group have been re-classified to conform the presentation for the current year.

	Year ended 31 December,				
	2002 *HK$'000*	2003 *HK$'000* (restated)	2004 *HK$'000* (restated)	2005 *HK$'000*	2006 *HK$'000*
RESULTS					
Turnover	180,333	165,879	269,688	368,250	326,611
Profit/(loss) before taxation	(6,400)	976	3,174	2,075	6,057
Taxation	551	(285)	(473)	(632)	(956)
Profit/(loss) for the year	(5,849)	691	2,701	1,443	5,101
Profit/(loss) attributable to:					
Equity holders of the Company	(5,849)	691	2,736	1,443	5,101
Minority interest	–	–	(35)	–	–
Profit/(loss) for the year	(5,849)	691	2,701	1,443	5,101

	As at 31 December,				
	2002 *HK$'000*	2003 *HK$'000* (restated)	2004 *HK$'000* (restated)	2005 *HK$'000*	2006 *HK$'000*
ASSETS AND LIABILITIES					
Total assets	165,763	124,723	138,763	152,516	200,741
Total liabilities	(112,437)	(70,463)	(81,480)	(93,090)	(135,528)
	53,326	54,260	57,283	59,426	65,213
Equity attributable to equity holders of the Company	53,326	54,260	57,283	59,426	65,213
Minority interest	–	–	–	–	–
	53,326	54,260	57,283	59,426	65,213

NOTICE IS HEREBY GIVEN that the annual general meeting of Wafer Systems Limited (the "Company") will be held at Units 901-7, 9th Floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong on Friday, 27 April 2007 at 3:30 p.m. for the following purposes:

1. To consider and approve the audited consolidated financial statements and the reports of the directors and the auditors for the year ended 31 December 2006;

2. To re-elect a director, Mr. Chan Sek Keung, Ringo, retiring by rotation and to authorise the board of directors to fix his remuneration (if any); *(note 5)*

3. To re-elect a director, Mr. Pang Hing Chung, Alfred, retiring by rotation and to authorise the board of directors to fix his remuneration (if any); *(note 6)*

4. To re-appoint the auditors and to authorise 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 the 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 authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds, debentures, notes and any securities which carry rights to subscribe for or are convertible into the shares in the Company) which would or might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under any share option scheme of the Company or any other option, scheme or similar arrangement for the time being adopted for the grant or issue to employee, director, advisor or business consultant 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 **20 per cent.** 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 recognised regulatory body or any stock exchange in any territory applicable to the Company)."

(2) "**THAT**:

(a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the capital of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares in the Company may be listed and recognised 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 **10 per cent.** 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 no. 5(1) and 5(2) of the notice convening this meeting being passed, the general mandate granted to the directors of the Company to allot, issue and deal with additional shares in the Company pursuant to the said resolution no. (1) be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors of the Company pursuant to the said resolution no. (2), provided that the amount of shares so repurchased by the Company shall not exceed 10 per cent. 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, 27 March 2007

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 Rooms 1806-7, 18th 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 2006 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 Mr. Chan Sek Keung, Ringo are as contained on page 9 of the Annual Report.

   Mr. CHAN Sek Keung, Ringo, aged 47, is the Chairman and Chief Executive Officer of the Company and also the Compliance Officer and one of the two Authorised Representatives of the Company in respect of the Company's listing on GEM. Mr. Chan is also a director of all the subsidiaries of the Group.

   Mr. Chan first joined the Company in November 1998 and has been on the board ever since. He retires by rotation under Article 87 of the Articles of Association of the Company and, being eligible, offers himself for re-election. Apart from being a director of the Company, Mr. Chan has not been a director of any public listed company for the past three years.

   Mr. Chan has over 20 years working experience in the data and networking communication field. He 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.

Mr. Chan has been appointed as an executive director of the Company for a term of three years commencing 1 January 2006, subject to the retirement by rotation as required by the Articles of Association of the Company. His remuneration package has been determined by his duties, responsibilities and experience, include, mainly and amongst others; (1) an annual salary of HK$900,000 for the first year which is subject to a maximum increase of 10% in the following two years as determined by the Board or the Remuneration Committee; (2) an annual management bonus of 5% on the audited net profits of the Company when such net profit exceeds HK$5 million; and (3) Company paid accommodation and related facilities to the maximum of HK$35,000 per month.

The Directors has not recommended any increase to Mr. Chan's salary for the year 2007.

Mr. Chan's interests in the shares of the Company, within the meaning of Part XV of the Securities and Futures Ordinance as at 31 December 2006 include 64,652,000 shares beneficially own by him, 3,000,000 share options granted to him on 30 April 2002 at the exercise price of HK$0.55 per share and 1,200,000 shares options granted to him on 20 February 2003 at the exercise price of HK$0.138 per share. The above options granted to Mr. Chan will expire, if not exercised, on the respective dates 10 years from the date of grant.

Save as those disclosed above, there are no other matters need to be brought to the attention of the shareholders of the Company.

Save as those disclosed above, there are no other information to be disclosed pursuant to the requirements of Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

6. The biographical details on Mr. Pang Hing Chung, Alfred are as contained on page 9 of the Annual Report.

Mr. PANG Hing Chung, Alfred, aged 45, is an independent non-executive director of the Company. Mr. Pang first joined the Company in March 1999. He retires by rotation under Article 87 of the Articles of Association of the Company and, being eligible, offers himself for re-election.

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. Pang's appointment as an independent non-executive director with the Company for the two years ending 31 March 2008 carries an annual fee of HK$120,000. The said fee is determined by reference to his duties, responsibilities and experience. Mr. Pang has served on the Audit Committee since its inception.

Mr. Pang's interests in the shares of the Company, within the meaning of Part XV of the Securities and Futures Ordinance, include 750,000 share options granted to him on 30 April 2002 at the exercise price of HK$0.55 per share and 750,000 shares options granted to him on 20 February 2003 at the exercise price of HK$0.138 per share. The above options granted to Mr. Pang will expire, if not exercised, on the respective dates 10 years from the date of grant.

For the past three years, Mr. Pang has not held any directorship position in any other listed public company.

Save as those disclosed above, there are no other matters need to be brought to the attention of the shareholders of the Company.

Save as those disclosed above, there are no other information to be disclosed pursuant to the requirements of Rule 17.50(2)(h) to (v) of the GEM Listing Rules.

7. The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.