



WAFER SYSTEMS

Wafer Systems Limited

威發系統有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2007**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF
THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)**

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

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

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

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

As at the date of this report, the executive director of the Company is Mr. Chan Sek Keung, Ringo and the independent non-executive directors are Mr. Pang Hing Chung, Alfred, Mr. David Tsoi and Mr. So Lie Mo, Raymond.

This report, for which the directors (the “Directors”) of Wafer Systems Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all 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.

* For identification purpose only

TO OUR SHAREHOLDERS

The board of Directors (the “Board”) is pleased to report the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months and nine months ended 30 September 2007 (the “Review Period”) together with the comparative unaudited figures for the corresponding period in 2006.

BUSINESS OVERVIEW AND REVIEW

Financial Highlights

	Q3/2007 <i>HK\$'000</i>	Q3/2006 <i>HK\$'000</i>	<i>Change</i>	Q1-Q3/ 2007 <i>HK\$'000</i>	Q1-Q3/ 2006 <i>HK\$'000</i>	<i>Change</i>
Turnover	84,263	78,550	7%	279,430	219,498	27%
Operating Profit	1,760	1,363	29%	7,976	4,186	91%
Profit attributable to equity holders of the Company	277	315	-12%	3,936	1,327	197%
Basic EPS (HK Cents)	0.09	0.11		1.35	0.46	
Orders on hand				32,679	47,951	

FINANCIAL REVIEW

During the Review Period, the Group recorded a turnover of approximately HK\$279.4 million (2006: HK\$219.5 million), an increase of 27% from that recorded in the corresponding period in 2006.

Profit attributable to shareholders of the Company for the Review Period increased by 197% to approximately HK\$3.9 million (2006: HK\$1.3 million).

Basic earnings per share during the Review Period were 1.35 HK cents, an increase of 193% as compared with 0.46 HK cents for the same period in 2006.

INTERIM DIVIDEND

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

BUSINESS REVIEW

During the Review Period turnover from the Network Infrastructure business increased by approximately 22% to approximately HK\$235 million (2006: HK\$192 million), accounting for about 84% of the Group's total turnover. For Professional Services, turnover increased by approximately 64% to approximately HK\$41 million (2006: HK\$25 million). Software sales during the Review Period saw a 49% increase to HK\$2.75 million (2006: HK\$1.85 million).

PROSPECTS

The last quarter of the year is usually a busy one for the Group. At as 30 September 2007 there was a backlog of orders on hand of approximately HK\$33 million. Barring unforeseen circumstances, the Group is cautiously optimistic about the completion of orders on hand as well as obtaining new orders for delivery during the balance of the year.

FINANCIAL INFORMATION

Unaudited Consolidated Financial Results

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	2	84,263	78,550	279,430	219,498
Other income		167	138	254	647
Charges in materials and equipment		(65,917)	(64,999)	(225,742)	(182,604)
Employee expense		(5,713)	(4,637)	(17,114)	(14,759)
Depreciation and amortisation		(1,100)	(1,127)	(3,369)	(3,451)
Other expenses		(9,940)	(6,562)	(25,483)	(15,145)
Finance costs		(1,233)	(798)	(3,790)	(2,609)
Profit before taxation		527	565	4,186	1,577
Taxation	4	(250)	(250)	(250)	(250)
Profit for the period		<u>277</u>	<u>315</u>	<u>3,936</u>	<u>1,327</u>
Profit attributable to: Equity holders of the Company		<u>277</u>	<u>315</u>	<u>3,936</u>	<u>1,327</u>
Earnings per share					
– Basic (cents)	5	<u>0.09</u>	<u>0.11</u>	<u>1.35</u>	<u>0.46</u>
– Diluted (cents)	5	<u>0.09</u>	<u>N/A</u>	<u>1.34</u>	<u>N/A</u>

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

(1) BASIS OF PRESENTATION

The unaudited consolidated financial results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

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

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

(2) TURNOVER

An analysis of the Group’s turnover recognised for the three and nine months ended 30 September 2007 together with the comparative figures for the corresponding period in 2006 are as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2007 HK\$’000	2006 HK\$’000	2007 HK\$’000	2006 HK\$’000
Network infrastructure	70,548	65,080	235,255	192,336
Professional services	13,165	12,837	41,423	25,315
Network software	550	633	2,752	1,847
Total	<u>84,263</u>	<u>78,550</u>	<u>279,430</u>	<u>219,498</u>

(3) PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the three months ended 30 September		For the nine months ended 30 September	
	2007 HK\$’000	2006 HK\$’000	2007 HK\$’000	2006 HK\$’000
Amortisation of software product development costs	740	657	2,130	1,969
Depreciation of property, plant and equipment	360	470	1,239	1,482
Staff costs (including directors’ remuneration)	5,713	4,637	17,114	14,759
and after crediting:				
Interest income	60	157	147	197

(4) TAXATION

The charges represented PRC income tax calculated on the estimated assessable profit for the period at rates applicable to the respective PRC subsidiaries.

No provision for Hong Kong profits tax has been made for the Company and other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the nine months ended 30 September 2007 and its corresponding period in 2006 or the entities sustained losses for taxation purposes.

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

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

(5) EARNINGS PER SHARE

The calculation of basic earnings per share for the three months and the nine months ended 30 September 2007 is based on the unaudited profit attributable to equity holders of the Company of approximately HK\$277,000 (2006: HK\$315,000) and approximately HK\$3,936,000 (2006: HK\$1,327,000) respectively and on the weighted average number of approximately 291,239,000 (2006: 289,945,000) shares in issue during the period.

The calculated of diluted earnings per share for the three months and nine months ended 30 September 2007 is based on the unaudited profit attributable to equity holders of the Company approximately HK\$277,000 and HK\$3,936,000, respectively and on the weighted average number of approximately 293,248,000 shares in issued during the period.

(6) RESERVES

	Share capital	Share premium	Share-based payments reserve	Statutory surplus reserve fund	Enterprise expansion fund	Staff welfare fund	Exchange (Accumulated reserve)	Retained earnings/ losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2006	2,900	55,824	587	1,003	502	502	566	(2,458)	59,426
Exchange differences on translation of foreign operations	-	-	-	-	-	-	339	-	339
Profit for the nine months ended 30 September 2006	-	-	-	-	-	-	-	1,327	1,327
Recognition of share-based payments	-	-	44	-	-	-	-	-	44
As at 30 September 2006	2,900	55,824	631	1,003	502	502	905	(1,131)	61,136
As at 1 January 2007	2,900	55,824	643	1,505	502	-	1,196	2,643	65,213
Exchange differences on translation of foreign operations	-	-	-	-	-	-	1,433	-	1,433
Profit for the nine months ended 30 September 2007	-	-	-	-	-	-	-	3,936	3,936
Recognition of share-based payments	-	-	118	-	-	-	-	-	118
Exercise of share options, net of expenses	73	2,210	(351)	-	-	-	-	-	1,932
As at 30 September 2007	2,973	58,034	410	1,505	502	-	2,629	6,579	72,632

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

SHARE OPTION SCHEMES

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

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

(a) Pre-IPO Share Option Scheme

One single grant of 11,913,000 shares in aggregate was made to various participants on 30 April 2002 under this scheme. As at 30 September 2007, options comprising an aggregate of 6,756,000 shares were outstanding, as detailed below:

	Number of share options				
	Exercise price per share	Outstanding as at 1.1.2007	Exercised during Review Period	Lapsed during Review Period	Outstanding as at 30.9.2007
	HK\$				
Type of participants:					
Directors	0.55	3,750,000	–	–	3,750,000
Advisor	0.55	750,000	–	–	750,000
Employees	0.55	3,810,000	1,544,000	10,000 <i>(Note)</i>	2,256,000
		<u>8,310,000</u>	<u>1,544,000</u>	<u>10,000</u>	<u>6,756,000</u>

Note: These options lapsed according to the rules of this scheme due to the employee(s) having left the Group.

Pre-IPO share options are exercisable as to (i) a maximum of 25% of the total number of options granted six months after 17 May 2002 (the "Date of Listing"); (ii) a maximum additional 6.25% of the total number of options granted after the expiry of each 3-month period twelve months after the Date of Listing; and (iii) the remaining options on or after the third anniversary of the Date of Listing until the end of the option period or lapse of an option.

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

(b) Post-IPO Share Option Schemes

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

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

Date of grant	Type of participants	Exercisable period	Exercise price per share <i>HK\$</i>	Number of share options				Outstanding as at 30.9.2007
				Outstanding as at 1.1.2007	Granted during Review Period	Exercised during Review Period	Lapsed during Review Period	
12.7.2002	Employees	12.7.2003 to 11.7.2012	0.384	2,025,000	–	1,119,000	–	906,000
20.2.2003	Directors	20.2.2004 to 19.2.2013	0.138	3,825,000	–	1,875,000	–	1,950,000
	Advisors	20.2.2004 to 19.2.2013	0.138	300,000	–	–	–	300,000
	Employees	20.2.2004 to 19.2.2013	0.138	1,961,000	–	1,803,000	10,000	148,000
				6,086,000	–	3,678,000	10,000	2,398,000
10.10.2003	Employees	10.10.2004 to 9.10.2013	0.142	135,000	–	52,500	5,000	77,500
23.2.2004	Employees	23.2.2005 to 22.2.2014	0.165	1,458,000	–	892,500	–	565,500
11.10.2004	Employees	11.10.2005 to 10.10.2014	0.124	315,000	–	29,000	42,000	244,000
12.1.2007	Directors	12.1.2008 to 11.1.2017	0.088	–	750,000	–	–	750,000
	Employees	12.1.2008 to 11.1.2017	0.088	–	6,230,000	–	–	6,230,000
				–	6,980,000	–	–	6,980,000
	Total:			10,019,000	6,980,000	5,771,000	57,000	11,171,000

Notes:-

- (1) These options lapsed according to the rules of this scheme due to the employee(s) having left the Group.
- (2) Out of these 1,875,000 exercised share options, 375,000 shares were granted to each of Mr. Alasdair Gordon Nagle and Ms. Clara Ho, directors appointed to the Board to represent the interests of The Applied Research Council (“ARC”). Both Mr. Nagle and Ms. Ho exercised the options on 3 April 2007 and shares were allotted to them accordingly. They subsequently resigned from directorship in the Company with effect from 13 April 2007 after ARC ceased to be a substantial shareholder of the Company after 12 April 2007.
- (3) Out of these 1,875,000 exercised share options, 750,000 shares were granted to Mr. David Tsoi. He exercised the options on 14 June 2007 and shares were allotted to him accordingly.
- (4) Out of these 1,875,000 exercised share options, 375,000 shares were granted to Mr. Kwan Kit Tong, Kevin, directors appointed to the Board to represent the interests of QPL International Holdings Limited (“QPL”). Mr. Kwan exercised the options on 22 August 2007 and shares were allotted to him accordingly. He subsequently resigned from directorship in the Company with effect from 26 August 2007.

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

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

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

As at 30 September 2007, the interests and short positions of the Directors, the chief executive of the Company and their respective associates (as defined in the GEM Listing Rules) in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(a) Long positions in shares in the Company

Name of director	Number of shares held						Total interest in shares	Approximate percentage of the Company's issued share capital
	Personal interest	Capacity	Family interest	Corporate interest	Capacity	Other interest		
Mr. Chan Sek Keung, Ringo	23,160,000	Beneficial owner	–	56,400,000 (Note)	Interest through a controlled corporation	–	79,560,000	26.76%
Mr. David Tsoi	526,000	Beneficial owner	–	–	–	–	526,000	0.18%

Note: Such shares in the Company are held by Woodstock Management Limited (“Woodstock”), a company wholly owned by Mr. Chan Sek Keung, Ringo, who is deemed, by virtue of the SFO, to have an interest in these shares.

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

Name of director	Date of grant	Number of unlisted pre-IPO share option outstanding as at 1.1.2007	Number of unlisted pre-IPO share option outstanding as at 30.9.2007	Number of unlisted post-IPO share option outstanding as at 1.1.2007	Number of unlisted post-IPO share option outstanding as at 30.9.2007	Aggregate interests	Approximate percentage of the Company's issued share capital
Mr. Chan Sek Keung, Ringo	30.4.2002 20.2.2003	3,000,000 –	3,000,000 –	– 1,200,000	– 1,200,000	4,200,000	1.41%
Mr. Pang Hing Chung, Alfred	30.4.2002 20.2.2003	750,000 –	750,000 –	– 750,000	– 750,000	1,500,000	0.50%
Mr. David Tsoi (Note 3)	20.2.2003 12.1.2007	– –	– –	750,000 –	– 750,000	750,000	0.25%
Mr. Kwan Kit Tong, Kevin (Note 4)	20.2.2003	–	–	375,000	–	–	–

Notes:

- (1) Each of the above directors is the personal beneficial owner of the share options granted to him or her.
- (2) Each of the directors' interests represent his or her respective long positions in the underlying shares in the Company by virtue of options granted to the directors pursuant to the Pre-IPO Share Option Scheme and a Post-IPO Share Option Scheme both adopted by the Company on 20 April 2002 (further details are set out under the section headed "Share Option Schemes").
- (3) Mr. David Tsoi exercised his option rights on 14 June 2007 in respect of the 750,000 option granted to him on 20 February 2003.
- (4) Mr. Kwan Kit Tong, Kevin exercised his option rights on 22 August 2007 in respect of the 375,000 option granted to him on 20 February 2003. He subsequently resigned from directorship in the Company with effect from 26 August 2007.
- (5) Options granted on 30 April 2002 were exercisable during the period from 17 November 2002 to 29 April 2012 at the exercise price of \$0.55 per share.
- (6) Options granted on 20 February 2003 were exercisable during the period from 20 February 2004 to 19 February 2013 at the exercise price of \$0.138 per share.
- (7) Options granted on 12 January 2007 were exercisable during the period from 12 January 2008 to 11 January 2017 at the exercise price of \$0.088 per share.

Other than as disclosed above, none of the directors, the chief executive of the Company and their respective associates (as defined in the GEM Listing Rules), had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 September 2007.

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

As at 30 September 2007, the following persons or corporations, in addition to the Directors, stated under the section headed "Directors' and chief executive's interests or short position in shares and underlying shares of the Company", were interested in shares or underlying shares representing 5% or more in the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

Long positions in shares in the Company

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Type of interests</u>	<u>Number of shares</u>	<u>Approximate percentage of the Company's issued share capital</u>
North 22 Nominees Limited (<i>Note 1</i>)	Beneficial owner	Corporate	36,900,000	12.41%
Mr. Ng Lai Yick (<i>Note 1</i>)	Beneficial owner	Personal	3,134,744	1.05%
	Interest through a controlled corporation	Corporate	36,900,000	12.41%
QPL International Holdings Limited ("QPL") (<i>Note 2</i>)	Beneficial owner	Corporate	34,572,745	11.63%
Mr. Li Tung Lok (<i>Note 2</i>)	Interest through a controlled corporation	Corporate	34,572,745	11.63%
Madam Su Ching Wah (<i>Note 2</i>)	Interest of spouse	Family	34,572,745	11.63%

Notes:

- (1) Mr. Ng Lai Yick is deemed, by virtue of the SFO, to have an interest in the 36,900,000 shares held by North 22 Nominees Limited as the company is wholly-owned by him.
- (2) Mr. Li Tung Lok is the controlling shareholder of QPL and is deemed, by virtue of the SFO, to have an interest in the 34,572,745 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 34,572,745 shares held by QPL.

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

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

Mr. Chan Tze Ngon resigned from the Board and the Audit Committee with effect from 5 September 2007 as in the announcement made by the Company on 4 September 2007. The vacancy was filled by the appointment of Mr. So Lie Mo, Raymond to the Board and the Audit Committee since 5 September 2007. The Audit Committee now consists of three independent non-executive directors, namely, Mr. David Tsoi, Chairman, Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond.

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

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

Hong Kong, 12 November 2007