新濠環彩
Melco LottVentures

Melco LottVentures Limited

formerly known as Wafer Systems Limited

(Incorporated in the Cayman Islands with limited liability)

A Hong Kong listed company with stock code : 8198

ANNUAL REPORT 2007

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

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

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The 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 Board consists of two executive Directors, namely Mr. CHAN Sek Keung, Ringo and Mr. KO Chun Fung, Henry, and three independent non-executive Directors, namely Mr. David TSOI, PANG Hing Chung, Alfred and Mr. SO Lie Mo, Raymond.

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



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

Mr. Chan Sek Keung, Ringo
(Chairman & Chief Executive Officer)
Mr. Ko Chun Fung, Henry

Independent Non-Executive Directors

Mr. David Tsoi
Mr. Pang Hing Chung, Alfred
Mr. So Lie Mo, Raymond

AUDIT COMMITTEE

Mr. David Tsoi *(Chairman)*
Mr. Pang Hing Chung, Alfred
Mr. So Lie Mo, Raymond

REMUNERATION COMMITTEE

Mr. David Tsoi *(Chairman)*
Mr. Pang Hing Chung, Alfred
Mr. Chan Sek Keung, Ringo
Mr. So Lie Mo, Raymond

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

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Grand Cayman KY1-1112
Cayman Islands

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Prosperity Millennia Plaza
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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Investor Services Limited
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PRINCIPAL BANKERS

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Hong Kong

Dah Sing Bank Limited
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Hong Kong

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Central
Hong Kong

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Certified Public Accountants
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WEBSITE ADDRESS

www.melcolottventures.com.hk

STOCK CODE

8198

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

For and on behalf of the board of directors (the "Board"), I am pleased to present the annual results of Melco LottVentures Limited (the "Company") (formerly known as Wafer Systems Limited) and its subsidiaries (collectively, "Melco LottVentures" or the "Group") for the year ended 31 December 2007 (the "Review Period").

During the Review Period, turnover of the Group increased by approximately 11% to approximately HK$362 million (2006: HK$327 million). However, a technical application of the accounting rules required an accrual for an impairment loss on goodwill of approximately HK$416 million in connection with a very substantial acquisition completed at the end of the Review Period; and this led to the Group reporting a net loss of HK$416.38 million (2006: net profit HK$5.10 million). Should such non-cash expenses be excluded, the Group EBITDA would increase by approximately 15% to HK$17.10 million (2006: HK$14.81 million).

Details of the Group's segmental performance during the Review Period are discussed further in the following pages under the Management Discussion and Analysis section.

FINAL DIVIDEND

The Board does not recommend payment of any dividend for the year ended 31 December 2007 (2006: Nil).

BUSINESS REVIEW

The Group's traditional network system integration business continued to improve during the Review Period despite keen competition in the market. The improved performance of this segment was mainly attributable to the ability of the Group to offer higher value-added solutions, seamless collaboration with suppliers, continued trust from loyal customers and the innovation and hard work of its staff.

The past year was a ground breaking one for the Group. Hitherto, the Group was in the sole business of network system integration. During the year, the Group gained access to the lucrative and fast growing lottery market in Asia by acquiring a lottery business owned by a consortium led by Hong Kong-listed Melco Group (HKEx: 200), and partnered by Taiwan-listed Firich Enterprises Co. Ltd. ("Firich": 8076 TT) and Singapore-listed LottVision Ltd. ("LottVision": LottVis SI) on 22 October 2007. The three companies have great faith in the management of the Group and confidence in the synergies that would arise from partnering with us and accordingly, have injected their Asian lottery businesses into the Group in exchange for shares and convertible



CHAIRMAN'S STATEMENT

bonds in the Company. This gave the Group immediate entry into the China lottery market. It now owns one of the largest lottery sales networks in the PRC and provides a comprehensive range of lottery-related services including:

– Venue management consultancy services (over 550 venues under management);

– Provision of game software;

– Lottery terminal distribution (The Group's terminal distribution arm, is one the largest suppliers to the China Sports Lottery Administrative Centre ("CSLA"), and supplied 60% of all terminals acquired by the CSLA in 2006;

– Wholesale distribution of scratch cards; and

– Manufacture of lottery vending terminals

The lottery business will continue to benefit from the networks, pedigree and connections of the consortium in their capacity as strategic shareholders in the Company.

To reflect the close relationship the Company has with Melco Group, its English name was changed to Melco LottVentures Limited and its official Chinese name is now "新濠環彩有限公司".

PROSPECTS

In the coming years, the Group will continue to capitalise on its capability in network system integration to strengthen its foothold in China with development emphasis on the lottery business management service.

For lottery related business, the Group is looking at the large and lucrative Asian market. Starting with China, where the group already has a strong presence across the various industry vertical, such as venue management, supply of games, scratch card distribution, and lottery vending terminal manufacturing and distribution.

The lottery market has seen explosive growth in:–

• Lottery sales in China grew 15-fold from 1997 to 2006, to reach RMB82 billion.

CHAIRMAN'S STATEMENT

- In 2007, total lottery sales reached RMB100 billion, a year-on-year growth of 22%.

Furthermore, new products and services are expected to be approved by the Chinese sports authorities for the lottery playing public and the growth in this market is expected to maintain its existing trajectory.

Apart from expanding service coverage and number of outlets, the Group is also expanding its geographical footprint in Asia. The Group has reached an agreement to acquire KTeMS Co. Ltd., which is the operator of, and holds a 14% stake in, the Nanum Lotto Consortium. Nanum Lotto is the government authorised consortium that has the monopoly over the South Korean Welfare Lottery market estimated at US$2.3 billion in 2007. The proposed acquisition is currently pending shareholder approval.

The Group will also aggressively pursue other lottery opportunities in Asia. With its booming economies backed by solid economic growth of the past years, there is a greater propensity for Asia's large populations to apportion disposal income to entertainment avenues such as lotteries.

The Group has assembled a comprehensive suite of service offerings for the Asian Lottery market. This is an opportune time for a strong Asian player with an understanding of local markets to take the lead in the lottery industry. The Group is poised for success by leveraging the considerable resources at its disposal, namely:–

- The strength and exposure of the Group in lottery business management;
- The professional expertise of its management team;
- Support from international partners; and
- Synergies with the renowned Melco Group and other strategic shareholders.

Together, these will propel Melco LottVentures Ltd. into the league of top lottery market players in Asia.



CHAIRMAN'S STATEMENT

CONCLUSION

On behalf of the Board of Directors, I would like to take the opportunity to thank all staff members for their contribution in the past year. My thanks also go to our customers, suppliers, bankers, business partners, shareholders for their continued trust and support in the past year. I look forward to building Melco LottVentures into a successful corporation and growing its business with all staff members in the years ahead.

Last but not least, to my fellow directors, thank you for your wise counsel and support to me personally and your contribution of time and efforts to the Group during the year.

To our faithful shareholders, I would say, that it has been six years now since the Group was listed on the GEM Board of the Hong Kong Stock Exchange. Over the six years, in spite of the very keen competition and incessant changes in the market, the Group continued to be well-managed, viable and financially healthy. Entering lottery-related businesses has provided the Group new horizons for the coming years. On the one hand, this poses challenges to the leadership capability of the Board leadership, the Group's senior management and its staff. On the other, the Group, as a cohesive team, will work in concert to overcome these challenges and exploit the exciting opportunities that lie ahead.

CHAN Sek Keung, Ringo
Chairman and Chief Executive Officer

Hong Kong, 26 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT EVENTS AND DEVELOPMENTS

2007 marked the foray of Melco LottVentures Limited (“the Group”) into the lucrative and fast-growing lottery market in Asia. This move also consolidated our close relationship with Melco International Development Limited (“Melco”), one of the biggest gaming conglomerates listed on the Main Board of the Hong Kong Stock Exchange and founder of the NASDAQ-listed Melco PBL Entertainment (Macau) Limited which holds one of the six gaming licenses in Macau.

During the Review Period, the Group acquired an 80% interest in PAL Development Limited (“PAL”) which was previously jointly owned by Melco and Singapore listed LottVision Limited (“LottVision”) as well as a 60% interest in Oasis Rich International Limited (“Oasis”). which was previously owned by Taiwan listed Firich Enterprises Co., Limited (“Firich”). PAL is engaged in various lottery-related businesses and ventures in China. Wu Sheng Computer Technology (Shanghai) Co. Ltd., a wholly owned subsidiary of Oasis, is a Shanghai-based manufacturer of lottery vending terminals and point of sales (POS) systems.

The acquisition was satisfied by the issuance of 72 million new shares and HK$606.8 million worth of convertible bonds to Power Way Group Limited, a consortium led by Melco and is owned as to 54.8% by Melco, 26.9% by Firich and 18.3% by LottVision.

The Group has also recently forayed into the Korean lottery market through a series of loan and equity swaps. On 6 March 2008, it was announced that the Group will acquire the entire issued share capital of a Korean company, KTeMS Co., Ltd (“KTeMS”), at an aggregate consideration of US$12 million (equivalent to approximately HK$93.6 million). The transaction is subject to in-depth due diligence.

KTeMS has a 14% equity interest in Nanum Lotto Co., Ltd (“Nanum Lotto”) which has an exclusive national license to operate off-line lotto games in South Korea. Nanum Lotto is a consortium formed by renowned international and Korean partners. This recent foray into the Korean lotto market marks our first move to expand our lottery business beyond China. Our ultimate goal is to build a company with lottery operations across Asia.

As regards financing, on 19 December 2007, the Group completed a placement of 58 million new shares to international institutional investors and successfully raised net proceeds of approximately HK$104.1 million. The successful fund-raising provides us with the necessary working capital to expand our lottery business in Asia.

In January 2008, the Group proposed to change its name to “Melco LottVentures Limited 新濠環彩有限公司” to highlight its new principal business focus on lottery-related ventures as well as its close relationship with Melco. Backed by the strong gaming expertise and financial strength of the Melco Group, the Group is confident that our experienced international management team will be able to make Melco LottVentures one of the top lottery operators in Asia.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

The lottery industry in China is going through an industry revolution at the moment. We have already seen substantial growth in lottery sales over the last two years due primarily to the introduction of new games such as scratch cards. Going forward, the proposed introduction of fixed odds sports betting and interactive mobile gaming will no doubt spur further growth.

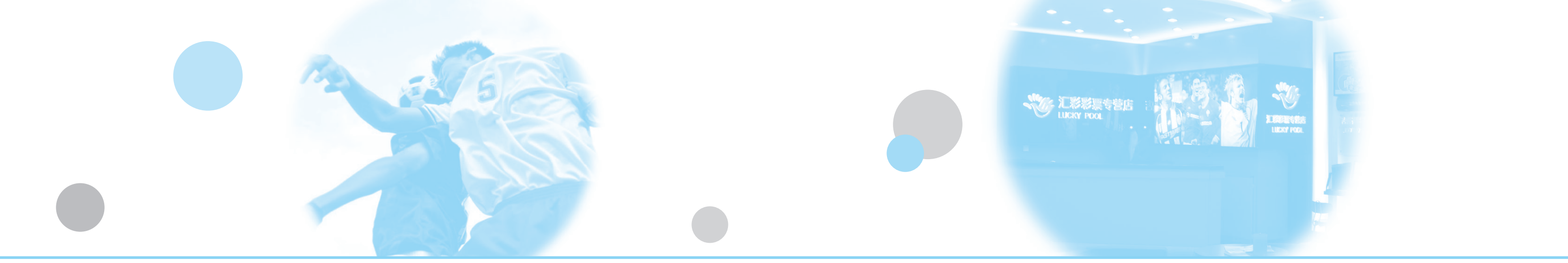
We are confident that the new lottery business will bring about a transformational change to the Group's earnings profile as well as its growth potential.

FINANCIAL REVIEW

For the year under review, the Group was engaged in two main business streams, namely (i) network system integration and (ii) lottery business management services.

The segmental information shown in Note 8 to the financial statements is reproduced below with some minor re-arrangements:

	Year ended 31-Dec-07	Year ended 31-Dec-06
	HK$'000	*HK$'000*
Segment Result: Network system integration	**12,890**	9,864
Segment Result: Lottery business management services	**(4,247)**	–
Group's operating results	**8,643**	9,864
Other income	**812**	639
Share of profits of jointly controlled entities	**691**	–
Impairment loss on goodwill	**(416,000)**	–
Impairment loss on intangible assets	**(1,001)**	–
Unallocated corporate expenses	**(390)**	(342)
Finance costs	**(7,460)**	(4,104)
(Loss)/profit before taxation	**(414,705)**	6,057
Income tax expenses	**(1,676)**	(956)
(Loss)/profit for the year	**(416,381)**	5,101
Minority interests	**933**	–
(Loss)/profit for the year attributable to equity holders of the Company	**(415,448)**	5,101



MANAGEMENT DISCUSSION AND ANALYSIS

Consolidated loss attributable to equity holders of the Company amounted to approximately HK$415.4 million for the Review Period (2006: net profit of approximately HK$5.1 million). The loss was primarily due to the following non-cash items:

(i) A deemed non-cash expense on convertible bonds amounting to HK$1.9 million; and

(ii) An impairment loss on goodwill of HK$416.0 million

Should these non-cash expenses be excluded, the Group would have recorded a consolidated operating EBITDA of approximately HK$17.1 million for the year, an increase of 15.5% over the previous year (2006: HK$14.8 million).

Network System Integration Business

This segment generated revenue of approximately HK$361.6 million (2006: HK$326.6 million), an increase of 10.7% over the previous year. A breakdown of the sales by main business segments is set out as follows:

	Year ended 31-Dec-2007 *HK$'000*	Year ended 31-Dec-2006 *HK$'000*
Network infrastructure service	**299,124**	286,398
Network professional services	**58,781**	38,008
Sales of Network software	**3,740**	2,205
Total	**361,645**	326,611

Contribution from Network System Integration increased from approximately HK$9.9 million to approximately HK$12.9 million, an increase of 30.3% over the previous year.

Lottery Business Management Services

The Group's lottery business is conducted via 80%-owned PAL Development Limited ("PAL"). Its business comprises the following:–

1) Provision of venue management services to over 500 venues for Sports Lottery in 7 provinces in China.

2) Wholesales distribution of scratch cards for both Sports Lottery and Welfare Lottery in China.

MANAGEMENT DISCUSSION AND ANALYSIS

3) Provision of technological solutions for Interactive Lottery Games on Mobile Phones.

For the year ended 31 December 2007, losses from this segment amounted to approximately HK$4.2 million (2006: Nil). Such losses were primarily due to the infrastructure and expansion costs incurred at the early stage of development. As PAL is still in its early investment phase, contribution to the Group's profitability was negligible in 2007.

Other Income

During the Review Period, other income amounted to HK$812,000 (2006: HK$639,000), the bulk of which was attributable to bank interests which amounted to HK$523,000 (2006: HK$227,000).

Share of profits of jointly controlled entities

During the Review Period, the share of profits of jointly controlled entities amounted to HK$691,000 (2006: Nil). These are made up of the following:

	Year ended 31-Dec-07 ***HK$'000***	Year ended 31-Dec-06 *HK$'000*
Share of profit of Beijing Telenet Information Technology Limited ("BTI") [(1)]	**747**	–
Share of loss of PALTECH Company Limited ("PALTECH") [(2)]	**(56)**	–
	691	–

(1) Share of profit of BTI

BTI is a jointly controlled entity owned as to 51% by PAL. BTI is engaged in the distribution of lottery vending terminals in 22 provinces in China. It is the largest authorized lottery vending terminal supplier approved by Sports Lottery.

During the Review Period, operational profit attributable to the Group amounted to approximately HK$747,000 (2006: Nil).

(2) Share of loss of PALTECH

PALTECH is a jointly controlled entity owned as to 60% by PAL. PALTECH is principally engaged in the development of computer systems and software applications and related technologies in connection with the printed lottery and/or online or mobile lottery operations worldwide with a particular focus on Asian market.

During the Review Period, operational loss attributable to the Group amounted to approximately HK$56,000 (2006: Nil).

Loss on Goodwill Impairment

A loss on goodwill impairment amounting to HK$416 million was recorded during the Review Period. This is a non-cash item resulting from the difference between the fair value of the convertible bonds and shares issued at the date of the acquisition of the new businesses and the value of these businesses as estimated by an independent valuers as at 31 December 2007.

Unallocated Corporate Expenses

During the Review Period, unallocated corporate expenses amounted to HK$390,000 (2006: HK$342,000).

Finance Costs

During the Review Period, finance costs amounted to approximately HK$7.5 million (2006: HK$4.1 million). The increase was primarily attributable to the deemed interest expense on the liability component of convertible bonds issued as part of the consideration on the acquisition of PAL and Oasis amounting to approximately HK$1.9 million in order to comply with HKAS 32. It should be noted that this deemed interest expense is notional and of a non-cash nature.

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's financial and liquidity position remained healthy. As at 31 December 2007, the Group had net current assets of approximately HK$196.6 million, a 222.6% increase over last year end of HK$61.0 million. The current ratio increased from 1.47 to 2.20. Net current assets included bank balances and cash of approximately HK$143.8 million (2006: HK$47.3 million), bank borrowings of approximately HK$45.7 million (2006: HK$49.8 million) and current portion of other loans of approximately HK$31.6 million (2006: HK$23.8 million). The increase in bank and cash during the year was mainly due to the net proceeds raised from the issue of new shares in December 2007.

Non-current portion of other loans at year end amounted to approximately HK$5.6 million (2006: HK$5.6 million).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2007, all assets and liabilities of the Group were denominated in U.S. dollars, Hong Kong dollars and Renminbi.

As at 31 December 2007, the total number of issued ordinary shares of the Group was 432,198,495 of HK$0.01 each (2006: 289,944,745 of HK$0.01 each). The increase in issued shares was due to the allotment of 72,000,000 consideration shares for the acquisition of the new businesses, 58,000,000 subscription share referred to above, as well as the exercise of share options.

ORDER BOOK AND PROSPECTS OF NEW BUSINESS

As at 31 December 2007, the Group had contracts on hand for sales amounting to approximately HK$38.3 million (2006: HK$20.2 million) which would be booked as revenue upon delivery and implementation.

SIGNIFICANT INVESTMENT HELD

The Group did not hold any significant investment at the beginning of the Review Period. Acquisitions during the Review Period are detailed below under the heading “Acquisitions, disposals and significant investments”.

SEGMENTAL INFORMATION

The segmental information of the Group is covered in note 8 to the financial statements.

CHARGES ON GROUP ASSETS

As at 31 December 2007, the Group had a pledged bank deposit of approximately HK$12.4 million (2006: HK$5.0 million) for securing certain banking facilities. No trade receivable was pledged for securing banking facilities as at 31 December 2007 (2006: HK$6.9 million).

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

GEARING RATIO

As at 31 December 2007, the gearing ratio, expressed as total liabilities over total assets, dropped to approximately 0.47 times from approximately 0.68 times as at 31 December 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

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

During the Review Period, the Group had completed the following acquisition:

On 13 December 2007, Rising Move International Limited, a wholly-owned subsidiary of the Group, entered into the agreement with Power Way Group Limited to purchase the 80% of the issued share capital of PAL Development Limited and 60% of the issued share capital of Oasis in a very substantial acquisition. The acquisition was at the consideration of HK$668 million, with approximately HK$61.2 million for the consideration shares and approximately HK$606.8 million being the Convertible bonds. The details please refer to the Circular of the Company dated 19 November 2007.

FUTURE PLANS FOR INVESTMENTS OR CAPITAL ASSETS AND SOURCES OF FUNDING

Other from abovementioned, there are no immediate plans for any significant investments in capital assets. However, the Group will continuously identify investment opportunities which add to the synergetic well being of the Group in the lottery business management sector, to be financed from internal funds or by the bringing in of strategic business partners.

EMPLOYEE INFORMATION

As at 31 December 2007, the Group had 350 employees comprising 27 employees based in Hong Kong and 323 employees based in mainland China. Total employee expense, excluding for directors, was approximately HK$25.5 million (2006: HK$21.5 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.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

As at 31 December 2007, the Company has issued corporate guarantees to banks in respect of their general banking facilities totaling HK$77,472,000 (2006: HK$50,400,000) granted to the wholly owned subsidiaries of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTOR

Mr. Chan Sek Keung, Ringo, aged 48, is the founder, Chairman and Chief Executive Officer of the Company and the Group. He is also a member of the Remuneration Committee of the Board.

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. He is a Fellow Member of the Hong Kong Institute of Directors, and a deputy of the Chinese People's Political Consultative Conference (CPPCC) for both cities of Jinan, Shandong Province and of Chengdu, Sichuan Province, China.

Mr. Ko Chun Fung, Henry, aged 48, is an executive director of the Company. Mr. Ko was appointed as an executive director of the Company since January 2008. As director and chief executive officer of PAL Development Limited, a non-wholly own subsidiary of the Company. Mr. Ko has the overall responsibility for the lottery business management service segment of the Group.

Mr. Ko joined Star Telecom Group, a company listed in Hong Kong, in 1993 and was promoted to the position of executive director in 1996. He spearheaded the company's PCS licence bidding and re-aligned the Star Telecom Group's joint ventures in the Asia Pacific region. In 1997, he founded Star Telecom Overseas (Cayman Islands) Limited and brought Baring Communications Equity Asia on board as a shareholder while pursuing telecom and Internet investment opportunities in the Asian region. Mr. Ko joined iAsia Technology Limited in 1999 as Co-Chief Executive Officer. After a corporate restructuring in 2004, Mr. Ko headed iAsia Online Systems Limited which became one of the leading financial trading solutions vendors in Hong Kong. Mr. Ko obtained a Bachelor of Engineering degree (first class honours) in 1982. In 1990 he received an Australian Postgraduate Course Award to study at the Australian Graduate School of Management, where he obtained his Master of Business Administration degree.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. David Tsoi, aged 60, 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. 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. Tsoi holds a Master's degree in Business Administration from the University of East Asia, Macau.

Mr. Pang Hing Chung, Alfred, aged 46, is an independent non-executive director and a member of both 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 a Bachelor of Arts degree in economics from Cornell University and also an MBA degree from the Stanford Graduate School of Business.

Mr. So Lie Mo, Raymond, aged 58, is an independent non-executive director and a member of both the Audit and Remuneration Committee of the Board. Mr. So was appointed as an independent non-executive director of the Company since September 2007.

Mr. So is a director of Spectrum Asia Pacific Limited which principally provides consulting services in business strategy, alliance and merger and acquisition. Mr. So is an all round businessman with a wealth of experience and contacts in the information technology ("IT") industry in Asia and particularly in greater China. He has a long and successful track record especially in the IT services industry. Before joining Spectrum in 2004, he served at Datacraft Asia Ltd. as the Regional Director of the greater China region after having spent years in senior executive positions in Wang Pacific Ltd., Electronic Data Systems (HK) Ltd. and Novell Hong Kong Ltd. Mr. So holds a bachelor degree in business administration from The Chinese University of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Pang Kin Man, Edmond, aged 60, joined the Group in August 2001. As company secretary, Mr. Pang assists the board of directors in the corporate governance and compliance matters of the Group. 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. Mr. Pang holds a Master of Science degree in corporate governance and directorship from the Baptist University of Hong Kong.

Mr. Lau Kwok Wing, aged 33, joined the Group in July 1999. As finance manager and qualified accountant, Mr. Lau oversees the financial and internal control matters of the Group. Mr. Lau holds a Postgraduate Diploma in Corporate Finance from The Hong Kong Polytechnic University. Mr. Lau is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE REPORT

(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 board of directors of the Company ("Directors" or "the Board") are conscientious as to the need for transparency of operations of the Company for the benefits of its shareholders and the investing public.

During the year ended 31 December 2007 under review, the Company complied with all the Code provisions except that the roles of the Chairman and Chief Executive Officer of the Company have been performed by the same individual, Mr. Ringo Chan.

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

With the Group having recently expanded into a new business segment and the appointment of a second executive director, the Board is currently evaluating the situation with the view of bringing the Company in compliance with this Code provision.

(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, unless otherwise indicated, served throughout the year under review:–

Executive director:–

Mr. Ringo Chan

Non-executive directors:–

Mr. Alasdair Nagle	(resigned on 13 April 2007)
Ms. Clara Ho	(resigned on 13 April 2007)
Mr. Kevin Kwan	(resigned on 26 August 2007)

Independent non-executive directors:–

Mr. David Tsoi	
Mr. Alfred Pang	
Mr. Yu Zhonghou	(resigned on 1 February 2007)
Mr. Chan Tze Ngon	(1 May 2007 to 4 September 2007)
Mr. Raymond So	(appointed on 5 September 2007)

During the year, he Board met seven times with attendance as follows:-

Director	Attendance
Mr. Ringo Chan	7/7
Mr. Alasdair Nagle *	1/1
Ms. Clara Ho *	1/1
Mr. Kevin Kwan *	4/4
Mr. David Tsoi	7/7
Mr. Alfred Pang	7/7
Mr. Chan Tze Ngon*	3/3
Mr. Raymond So *	3/3

*Note:**
These directors did not serve the whole year under review. The denominator in the attendance column indicates the number of board meetings they were entitled to attend during their term of service.

CORPORATE GOVERNANCE REPORT

The board operated along the guidelines of the Code during the year. It met regularly to discuss and formulate overall policy and business strategy of the Group. During the year, seven 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, who chairs the Audit Committee.

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 (“ARC”), a substantial shareholder of the Company, no other relationship existed amongst the individual directors. They both resigned from the Board with effect from 13 April 2007 after ARC ceased to be a substantial shareholder of the Company on the same date.

(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.

Members of the Remuneration Committee during the year include the following directors:–

Mr. David Tsoi	***(Chairman)***
Mr. Alfred Pang	
Ms. Clara Ho	(1 January to 13 April 2007)
Mr. Yu Zhonghou	(resigned on 1 February 2007)
Mr. Ringo Chan	(appointed on 13 August 2007))
Mr. Raymond So	(appointed on 5 September 2007)

The Remuneration Committee consisted of four directors: Mr. David Tsoi (Chairman) and Mr. Alfred Pang who served the full year, while Ms. Clara Ho (1 January 2007 to 13 April 2007), Mr. Ringo Chan (13 August 2007 to 31 December 2007) and Mr. Raymond So (5 September 2007 to 31 December 2007), each served the period in brackets following their names.



CORPORATE GOVERNANCE REPORT

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

Director	Attendance
Mr. David Tsoi	2/2
Mr. Alfred Pang	2/2
Ms. Clara Ho *	0/0
Mr. Yu Zhonghou *	0/0
Mr. Ringo Chan	2/2
Mr. Raymond So	2/2

*Note:**
These directors did not serve the Committee the whole year under review. The denominator in the attendance column indicate the number of committee meetings they were entitled to attend during their term of service.

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.

Additions to the Board during the year have been decisions of the whole Board. The Board will set up the appropriate nomination procedure and process and determine the policy for the nomination of directors when such needs arise.

(h) Auditors' remuneration

CCIF CPA Limited was re-appointed auditors of the Group at the Annual General Meeting of the Company held on 27 April 2007. The Board has agreed an audit fee of HK$990,000 for the audit of the Group's accounts for the year ended 31 December 2007.

During the year, CCIF CPA Limited was also engaged, at a total fee of HK$1,600,000 to perform the due diligence and act as reporting accountant to the Very Substantial Acquisition of Company as detailed in the Circular dated 19 November 2007 to shareholders. For the sake of independence, the external auditors were not engaged in any other 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 during the year include the following independent non-executive directors:–

Mr. David Tsoi	***(Chairman)***
Mr. Alfred Pang	
Mr. Yu Zhonghou	(resigned on 1 February 2007)
Mr. Chan Tze Ngon	(1 May to 4 September 2007)
Mr. Raymond So	(appointed on 5 September 2007)

During the year, the Audit Committee met five times with attendance as follows:-

Director	**Attendance**
Mr. David Tsoi	5/5
Mr. Alfred Pang	5/5
Mr. Chan Tze Ngon *	2/2
Mr. Raymond So *	2/2

*Note:**
These directors did not serve the Committee for the whole year under review. The denominator in the attendance column indicate the number of committee meetings they were entitled to attend during their term of service.

CORPORATE GOVERNANCE REPORT

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 2007. 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 5 December 2007.

(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, 26 March 2008

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company while its subsidiaries are principally engaged in the business of network system integration ("SI"). These include provision of network infrastructure solutions, including network infrastructure, network management services and network software, in the PRC and Hong Kong.

Beside the Group's SI business, the Group had, toward the end of 2007, acquired other subsidiaries which were engaged in various lottery-related businesses and ventures in the PRC and Asian countries, and in the manufacturing of point of sale and lottery terminals for the sports and welfare lottery businesses in China.

The principal activities of the Company's principal subsidiaries are set out in note 21 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 38 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 35 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$322.1 million (2006: HK$45.9 million) as at 31 December 2007. 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.

DIRECTORS' REPORT

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$3,303,000 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 18 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)***
Ko Chun Fung, Henry	(appointed on 7 January 2008)

Non-executive directors:

Alasdair Gordon Nagle	(resigned on 13 April 2007)
Clara Ho	(resigned on 13 April 2007)
Kwan Kit Tong, Kevin	(resigned on 26 August 2007)

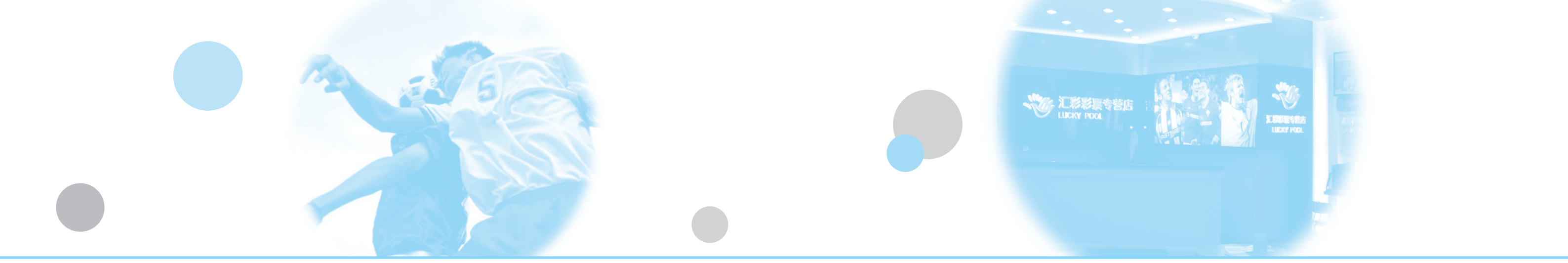
Independent non-executive directors:

David Tsoi	
Pang Hing Chung, Alfred	
Yu Zhonghou	(resigned on 1 February 2007)
Chan Tze Ngon	(1 May 2007 to 4 September 2007)
So Lie Mo, Raymond	(appointed on 5 September 2007)

The Company entered into a service contract with Mr. Chan Sek Keung, Ringo, executive director, for 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.

Mr. Ko Chun Fung, Henry was appointed an executive director of the Company with effect from 7 January 2008. No service contract has been entered into between Mr. Ko and the Company in relation to his appointment and he is entitled to terminate his appointment at any time by giving notice to the Company in writing.

Each of the non-executive directors and independent non-executive directors were appointed for a term of two years and are subject to retirement by rotation as required by the Articles of Association of the Company. The appointment term of Mr. David Tsoi and Mr. Alfred Pang will expire on 31 March 2008 and have been renewed for a further term of two years starting from 1 April 2008.



In accordance with Article 87 of the Company's Articles of association, Mr. Ringo Chan and Mr. David Tsoi will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The respective service contracts of Mr. Ringo Chan and Mr. David Tsoi, 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 31 December 2007, 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	18,160,000	4.20%
	Interest through a controlled corporation*	56,400,000	13.05%
David Tsoi	Beneficial owner	326,000	0.08%
Pang Hing Chung, Alfred	Beneficial owner	1,500,000	0.35%
		76,386,000	17.68%

* *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.*

DIRECTORS' REPORT

(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
David Tsoi	Beneficial owner	950,000	950,000
Pang Hing Chung, Alfred	Beneficial owner	200,000	200,000
So Lie Mo, Raymond	Beneficial owner	750,000	750,000
		6,100,000	6,100,000

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 31 December 2007.

SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2007, 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	Capacity	Number of Share interested	Number of underlying Shares interested	Approximate percentage of interest
Power Way Group Limited (“Power Way”)	Beneficial Owner	72,000,000	713,882,352 *(Note 5)*	181.83%
Melco LottVentures Holdings Limited (“Melco LottVentures”)	Interest through a controlled corporation	72,000,000 *(Note 1)*	713,882,352 *(Note 5)*	181.83%
Melco Leisure and Entertainment Group Limited (“Melco Leisure”)	Interest through controlled corporations	72,000,000 *(Note 2)*	713,882,352 *(Note 5)*	181.83%
Melco International Development Limited (“Melco”)	Interest through controlled corporations	72,000,000 *(Note 3)*	713,882,352 *(Note 5)*	181.83%
Mr. Ho, Lawrence Yau Lung (“Mr. Ho”)	Interest through controlled corporations	72,000,000 *(Note 4)*	713,882,352 *(Note 5)*	181.83%
Mr. Ng Lai Yick *(Note 6)*	Beneficial Owner	3,134,744	–	0.73%
	Interest through controlled corporation	36,900,000	–	8.54%
North 22 Nominees Limited *(Note 6)*	Beneficial Owner	36,900,000	–	8.54%
Enso Capital Management LLC (“Enso”) *(Note 7)*	Interest through controlled corporation	39,164,000	–	9.06%
Enso Global Equities Master Partnership LP *(Note 7)*	Beneficial Owner	23,603,110	–	5.46%
Legg Mason Inc	Interest through controlled corporations	30,000,000	–	6.94%



DIRECTORS' REPORT

Notes:

1. Melco LottVentures is deemed to be interested in the 72,000,000 Shares by virtue of its controlling interests in Power Way.

2. Melco Leisure is deemed to be interested in the 72,000,000 Shares by virtue of its controlling interests in its wholly-owned subsidiary, Melco LottVentures.

3. Melco is deemed to be interested in the 72,000,000 Shares by virtue of its controlling interests in its wholly-owned subsidiary, Melco Leisure.

4. Mr. Ho is deemed to be interested in the 72,000,000 Shares by virtue of his controlling interests in Melco, which are held by him personally and his controlled corporations.

5. Convertible bonds in the principal amount of HK$606,800,000 carrying the rights to subscribe for Shares at an initial conversion price of HK$0.85 per Share was issued by the Company to Power Way on 13 December 2007 to satisfy part of the consideration of the acquisition of the entire share capital of Previous Success Holdings Limited and 60% of Oasis which was completed in December 2007. If Power Way exercises the conversion rights attaching to the said convertible bonds in full at the initial conversion price, a total of 713,882,352 Shares will be issued to Power Way. However, no conversion of the convertible bonds shall be made, if immediately upon such conversion, (1) Power Way and its parties acting in concert (as defined under the Hong Kong Code on Takeovers and Mergers (the "Code") with it will be under an obligation to make a general offer under the Code; (2) each of (i) any of the existing Shareholders holding more than 20% or more of the voting rights of the Company as at the date of the Agreement; and (ii) Power Way and its parties acting in concert (as defined under the Code) will hold 20% or more of the voting rights of the Company respectively; or (3) the public float of the Shares falls below 25% (or any given percentage as required by the GEM Listing Rules) of the issued Shares.

6. Mr. Ng Lai Yick is deemed, by virtue of the SFO, to be interested in the 36,900,000 Shares held by North 22 Nominees Limited, a company wholly-owned by him, in addition to the 3,134,744 Shares held by him personally.

7. Enso is deemed, by virtue of the SFO, to be interested in the 39,164,000 Shares which include the 23,603,110 Shares held by Enso Global Equities Master Partnership LP, which is a discretionary fund controlled by Enso.

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, 2007.

SHARE OPTION

Details of the movements in the Company's share option scheme are set out in note 37 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OF DEBENTURES

Other than the option holdings disclosed in note 37 to the financial statements, 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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 any 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 standards.

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 37 to the financial statements.

DIRECTORS' REPORT

FIVE YEARS'/PERIODS' FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the past five financial years/periods is set out in page 111 of this report.

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 33% of the Group's total sales, while the sales attributable to the Group's largest single customer was approximately 21% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 78% of the Group's total purchases, while the purchases attributable to the Group's largest single supplier was approximately 69% 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.

DIRECTORS' REPORT

AUDIT COMMITTEE

The Audit Committee was established for the purposes of reviewing and providing supervision over the financial reporting process and internal controls of the Group.

SUFFICIENCY OF PUBLIC FLOAT

The Group has maintained a sufficient public float throughout the year ended 31 December 2007.

DONATIONS

During the year, the Group has not made any charitable or other donations.

AUDITORS

The financial statement accompanying this Annual Report have been audited by CCIF CPA Limited. A resolution for their re-appointment will be submitted to the forthcoming annual general meeting of the Company to be held on 28 April 2008.

CCIF CPA Limited was appointed as auditors of the Company, to fill the casual vacancy resulting from the resignation of Deloitte Touch Tohmatsu, with effect from 30 December 2006. 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, 26 March 2008

INDEPENDENT AUDITOR'S REPORT

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

TO THE SHAREHOLDERS OF MELCO LOTTVENTURES LIMITED
(FORMERLY KNOWN AS WAFER SYSTEMS LIMITED)
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Melco LottVentures Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 110, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 report.

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.

INDEPENDENT AUDITOR'S REPORT

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 2007 and the Group's loss 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
Hong Kong, 26 March 2008

Ho Chun Shing
Practising Certificate Number P04396

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	7	**361,936**	326,611
Cost of sales and services		**(282,323)**	(268,055)
Gross profit		**79,613**	58,556
Other income		**812**	639
Employee benefits costs	9	**(24,470)**	(20,575)
Depreciation and amortisation		**(7,331)**	(4,647)
Impairment loss on goodwill	19	**(416,000)**	–
Impairment loss on intangible assets		**(1,001)**	–
Share of profits of jointly controlled entities		**691**	–
Other operating expenses		**(39,559)**	(23,812)
Finance costs	10	**(7,460)**	(4,104)
(Loss)/profit before taxation	11	**(414,705)**	6,057
Income tax expenses	14	**(1,676)**	(956)
(Loss)/profit for the year		**(416,381)**	5,101
Attributable to:			
Equity holders of the Company		**(415,448)**	5,101
Minority interests		**(933)**	–
		(416,381)	5,101
(Loss)/earnings per share – Basic	16	**HK(139.02) cents**	HK1.76 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Property, plant and equipment	18	**32,051**	2,032
Goodwill	19	**485,026**	–
Intangible assets	20	**194,711**	7,753
Interests in jointly controlled entities	22	**97,633**	–
Loan receivable	23	**396**	–
		809,817	9,785
Current assets			
Inventories	24	**12,057**	5,602
Trade and other receivables	25	**159,861**	133,065
Amount due from a jointly controlled entity	26	**1,431**	–
Amount due from a shareholder of a jointly controlled entity	27	**30,348**	–
Pledged bank deposits	28	**12,424**	5,013
Cash and cash equivalents	29	**143,816**	47,276
		359,937	190,956
Current liabilities			
Trade and other payables	30	**81,774**	54,721
Tax payable	31	**2,163**	1,548
Amount due to a jointly controlled entity	26	**2,140**	–
Bank borrowings	32	**45,712**	49,843
Other loans	33	**31,565**	23,843
		163,354	129,955
Net current assets		**196,583**	61,001
Total assets less current liabilities		**1,006,400**	70,786

	Notes	**2007** **HK$'000**	2006 HK$'000
Non-current liabilities			
Other loans	33	**5,600**	5,573
Convertible bonds	34	**380,030**	–
		385,630	5,573
Net assets		**620,770**	65,213
Capital and reserves			
Share capital	35	**4,322**	2,900
Reserves	36	**539,756**	62,313
Total equity attributable to equity holders of the Company		**544,078**	65,213
Minority interests		**76,692**	–
Total equity		**620,770**	65,213

The financial statements on pages 38 to 110 were approved and authorised for issue by the board of directors on 26 March 2008 and are signed on its behalf by:

CHAN Sek Keung, Ringo
Chairman and Chief Executive Officer

KO Chun Fung, Henry
Executive Director

	Notes	2007 HK$'000	2006 HK$'000
Non-current assets			
Investments in subsidiaries	21	**1,163,314**	–
Current assets			
Trade and other receivables	25	**166,369**	59,325
Current liabilities			
Trade and other payables	30	**11,160**	9,923
Net current assets		**155,209**	49,402
Total assets less current liabilities		**1,318,523**	49,402
Non-current liability			
Convertible bonds	34	**380,030**	–
Net assets		**938,493**	49,402
Capital and reserves			
Share capital	35	**4,322**	2,900
Reserves	36	**934,171**	46,502
Total equity		**938,493**	49,402

The financial statements on pages 38 to 110 were approved and authorised for issue by the board of directors on 26 March 2008 and are signed on its behalf by:

CHAN Sek Keung, Ringo
Chairman and Chief Executive Officer

KO Chun Fung, Henry
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital HK$'000	Share premium HK$'000	Share-based payments reserve HK$'000	Statutory surplus reserve fund HK$'000	Enterprise expansion fund HK$'000	Convertible bonds equity reserve HK$'000	Exchange reserve HK$'000	Retained profits/ (Accumulated losses) HK$'000	Attributable to equity holders of the Company HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	2,900	55,824	587	1,505	502	–	566	(2,458)	59,426	–	59,426
Exchange differences on translation of foreign operations	–	–	–	–	–	–	630	–	630	–	630
Profit for the year	–	–	–	–	–	–	–	5,101	5,101	–	5,101
Total recognised income and expenses for the year	–	–	–	–	–	–	630	5,101	5,731	–	5,731
Recognition of equity settled share-based payments	–	–	56	–	–	–	–	–	56	–	56
At 31 December 2006 and 1 January 2007	2,900	55,824	643	1,505	502	–	1,196	2,643	65,213	–	65,213
Exchange differences on translation of foreign operations	–	–	–	–	–	–	3,287	–	3,287	–	3,287
Loss for the year	–	–	–	–	–	–	–	(415,448)	(415,448)	(933)	(416,381)
Total recognised income and expenses for the year	–	–	–	–	–	–	3,287	(415,448)	(412,161)	(933)	(413,094)
Recognition of equity settled share-based payments	–	–	157	–	–	–	–	–	157	–	157
Exercise of share options, net of expenses	122	4,305	(441)	–	–	–	–	–	3,986	–	3,986
Recognition of equity component of convertible bonds	–	–	–	–	–	611,692	–	–	611,692	–	611,692
Issue of new shares	580	103,555	–	–	–	–	–	–	104,135	–	104,135
Transaction costs attributable to issue of new shares	–	(2,464)	–	–	–	–	–	–	(2,464)	–	(2,464)
Shares issued on acquisition of subsidiaries *(note 39)*	720	172,800	–	–	–	–	–	–	173,520	–	173,520
Minority interests arising from acquisition of interests in subsidiaries *(note 39)*	–	–	–	–	–	–	–	–	–	77,625	77,625
At 31 December 2007	4,322	334,020	359	1,505	502	611,692	4,483	(412,805)	544,078	76,692	620,770

	Note	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
(Loss)/profit before taxation		**(414,705)**	6,057
Adjustments for:			
Interest income		**(601)**	(227)
Interest expenses		**7,460**	4,104
Depreciation and amortisation		**7,331**	4,647
Loss on disposal of property, plant and equipment		**2**	–
Write-off of property, plant and equipment		**–**	15
Impairment loss on goodwill		**416,000**	–
Impairment loss on intangible assets		**1,001**	–
Impairment loss on inventories		**854**	551
Impairment loss on trade and retention money receivables		**6,829**	391
Reversal of impairment loss on trade and retention money receivables recognised in previous years		**–**	(1,444)
Share-based payments expenses		**157**	56
Share of profits of jointly controlled entities		**(691)**	–
Operating cash flows before movements in working capital		**23,637**	14,150
Increase in inventories		**(7,309)**	(333)
Increase in trade and other receivables		**(10,178)**	(18,035)
Decrease in amount due from a shareholder of a jointly controlled entity		**1,995**	–
Increase in amount due to a jointly controlled entity		**2,140**	–
(Decrease)/Increase in trade and other payables		**(16,018)**	10,732
Cash (used in)/generated from operations		**(5,733)**	6,514
PRC enterprise income tax paid		**(1,061)**	(232)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(6,794)**	6,282
INVESTING ACTIVITIES			
Interest received		**601**	227
Acquisition of subsidiaries	39	**11,391**	–
Purchase of property, plant and equipment		**(3,303)**	(841)
Proceeds from disposal of property, plant and equipment		**70**	–
Capital expenditure on intangible assets		**(3,342)**	(2,802)
Increase in pledged bank deposits		**(7,411)**	(442)
NET CASH USED IN INVESTING ACTIVITIES		**(1,994)**	(3,858)
FINANCING ACTIVITIES			
Interest paid		**(5,532)**	(4,104)
Net borrowings raised from banks		**(4,131)**	7,224
Net borrowings raised from other loans		**7,749**	29,416
Exercise of share options		**3,986**	–
Net proceeds from issue of new shares		**101,671**	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		**103,743**	32,536
NET INCREASE IN CASH AND CASH EQUIVALENTS		**94,955**	34,960
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**47,276**	11,414
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**1,585**	902
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	29	**143,816**	47,276

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 functional currency of the Company.

The Company is an investment holding company. The principal activities of its subsidiaries are (i) the provision of network system integration, including provision of network infrastructure services, network professional services, and sales of proprietary network software; and (ii) the provision of lottery business management services in the People's Republic of China (the "PRC").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standards amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but not yet effective.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating segments[1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 March 2007
[3] Effective for annual periods beginning on or after 1 January 2008
[4] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SUMMARY OF 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. A summary of the significant accounting policies adopted by the Group is set out below.

b) Basis of Preparation of the Financial Statements

The consolidated financial statements for the year comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is historical cost basis, except for certain financial instruments, which are measured at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of Preparation of the Financial Statements *(Continued)*

The preparation of financial statements in conformity to HKFRSs requires management to make judgements, estimates and assumptions that affect the application to 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 the management of the Group 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 entities 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.

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 cost less impairment losses.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Jointly Controlled Entities

Joint ventures arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements of the Group using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interest that, in substance, from part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) 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 to 5 years after taking into account of their estimated residual value, if any, of 5% on cost, 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 its residual value, if any, are reviewed annually.

f) Intangible Assets (other than Goodwill)

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(h)). Other development expenditure is recognised as an expense in the year in which it is incurred.

Other intangible assets acquired in a business combination, where they satisfy with the definition of intangible assets and their fair value can be measured reliably, are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 3(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the year in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over the assets' estimated useful lives. All intangible assets of the Group and the Company with finite useful lives are amortised from the date they are available for use and their estimated useful lives are not more than five years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

f) Intangible Assets (other than Goodwill) *(Continued)*

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with lives as set out above.

g) Goodwill

Goodwill arising on an acquisition of a business or jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

g) Goodwill *(Continued)*

If the potential benefit of the acquired subsidiaries' income tax loss carry-forwards or other deferred tax assets did not satisfy the criteria for recognition when a business combination is initially accounted for but is subsequently realised, the amount is recognised as income in accordance with HKAS 12 "Income Taxes". In addition, the carrying amount of goodwill is reduced to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date. The amount for the reduction in the carrying amount of the goodwill is recognised as an expense immediately.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

h) 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;

– intangible assets;

– investments in subsidiaries; and

– interests in jointly controlled entities.

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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Impairment of Assets *(Continued)*

Recognition of impairment losses

An impairment loss is recognised in the 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.

Reversal 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 the income statement in the year which the reversal is recognised.

i) 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 costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) 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(h)), 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(h)).

k) 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.

l) 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.

m) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) Income Tax *(Continued)*

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) Income Tax *(Continued)*

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 recoverable, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

n) 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 it 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

o) 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.

i) 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.

ii) Revenue from the provision of network infrastructure services and network professional services are recognised when the services are rendered.

iii) Service fee income from management of electronic gaming machine lounges is recognised on an accrual basis in accordance with the contractual terms of the respective service agreements.

iv) Commission income from agency service on sale of gaming products is recognised when the service is rendered.

v) 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.

p) 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 the income statement, 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Translation of Foreign Currencies *(Continued)*

The results of foreign operations are translated into HK$ at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into HK$ 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.

q) 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 leases.

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

r) 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.

s) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Employee Benefits *(Continued)*

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.

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 applied to option 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) 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(t)(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.

u) 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 purpose of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) 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.

v) Financial Instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial assets

Financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) Financial Instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

The Group's financial assets at fair value through profit or loss comprised financial assets held for trading. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including bank balances, trade and other receivables, amounts due from a jointly controlled entity and a shareholder of a jointly controlled entity) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the consolidated income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the consolidated income statement when there is an objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) Financial Instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amount due to a jointly controlled entity, bank borrowings and other loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Convertible bonds

Convertible bonds issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity, is included in equity (convertible loan notes equity reserve).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) Financial Instruments *(Continued)*

Financial liabilities and equity (Continued)

Convertible bonds (Continued)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible bonds equity reserve until the embedded option is exercised in which case the balance stated in convertible bonds equity reserve will be transferred to share premium. Where the option remains unexercised at the expiry date, the balance stated in convertible bonds equity reserve will be released to the retained profits. No gain or loss is recognised in the income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to be liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the company and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the company measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) Financial Instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company or Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement.

For financial liabilities, they are removed from the Company's or Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in the consolidated income statement.

Impairment losses (other than goodwill and intangible assets with indefinite useful lives - see the accounting policies in respect of goodwill and intangible assets above)

At each balance sheet date, the Company and Group review the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

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 Property, Plant and Equipment

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (i) whether an event has occurred that may affect the assets value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the case of cash flow projections, could materially affect the net present value used in the impairment test. The Group determines whether an asset is impaired at least on an annual basis or where an indication of impairment exists. This requires an estimation of the value in the use of the assets. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the assets and also to choose a suitable discount rate in order to calculate the present value of those cash flow.

b) Useful Lives of Property, Plant and Equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

c) Estimated Impairment of Intangible Assets and Goodwill

The Group performs annual tests on whether there has been impairment of intangible assets and goodwill in accordance with the accounting policy stated in note 3(h). The recoverable amounts of cash generating units are determined based on value in-use calculations. These calculations require the use of estimates and assumptions made by management on the future operation of the business, pre-tax discount rates, and other assumptions underlying the value-in-use calculations.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

d) Amortisation of Intangible Assets

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The determination of the useful lives involves management's estimation. The Group re-assesses the useful life of the intangible assets and if the expectation differs from the original estimate, such a difference may impact the amortisation in the year and the estimate will be changed in the future period.

e) Estimated Impairment of Interests In Jointly Controlled Entities

Determining whether interests in jointly controlled entities are impaired requires an estimation of the recoverable amount of investment. The recoverable amount of investment calculation requires the Group to estimate the future cash flows expected to arise from the investment and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

f) Impairment of Trade and Other Receivables

Note 3 (j) describes that trade and other 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 Group's majority of working capital is devoted to trade and other receivables. In determining whether impairment on trade and other receivables occurred, the Group takes into consideration the ageing status and the likelihood of collection. An impairment loss on trade and other receivables is recognised when they are unlikely to be collected. The measurement of impairment loss requires the Group to estimate the future cash flows expected to be collected. In this regard, the management of the Group are satisfied that this risk is minimal and adequate impairment has been made in the financial statements in light of the past repayment historical records of the Group's customers and the current economic environment.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of (i) debts, comprising trade and other payables, amount due to a jointly controlled entity, bank borrowings, other loans and convertible bonds less cash and cash equivalents; and ii) equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The details of the net debt to equity ratio of the Group is as follows:

	Notes	**2007** **HK$'000**	2006 HK$'000
Current liabilities			
Trade and other payables	30	**81,774**	54,721
Amount due to a jointly controlled entity	26	**2,140**	–
Bank borrowings	32	**45,712**	49,843
Other loans	33	**31,565**	23,843
		161,191	128,407
Non-current liabilities			
Other loans	33	**5,600**	5,573
Convertible bonds	34	**380,030**	–
		385,630	5,573
Total debt		**546,821**	133,980
Less: Cash and cash equivalents	29	**143,816**	47,276
Net debt		**403,005**	86,704
Total equity		**544,078**	65,213
Net debt to equity ratio		**74%**	133%

6. 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, other loans and convertible bonds. 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 incurs some of expenditures in Renminbi ("RMB"). 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 PRC government. 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$ may have positive or negative impact on the results of operations of the Group.

The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
RMB	**198,162**	40,108	**290,918**	68,223

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

a) Currency Risk *(Continued)*

Sensitivity analysis

The Group is mainly exposed to RMB. The following table details the Group's sensitivity to a 5% increase and decrease in HK$ against the relevant foreign currency. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rate. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit and other equity where HK$ strengthen 5% against the relevant currency. For a 5% weakening of HK$ against the relevant currency, there would be an equal and opposite impact on the profit and other equity below would be negative.

	RMB currency impact	
	2007	2006
	HK$'000	*HK$'000*
Profit	**4,638**	1,406
Other equity	**–**	–

6. 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 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet and the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 43. 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.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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 mainly bank borrowings with fixed and floating interest rates. Therefore, any future variations in interest rate will not have a significant impact on the results of the Group.

Sensitivity Analysis

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

At 31 December 2007, it is estimated that a general increase of one percentage point in interest rates would increase the Group's loss before taxation by approximately HK$276,000 (2006: decrease profit by approximately HK$247,000) so far as the effect on interest-bearing financial instruments is concerned.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

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 management of the Group 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 adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short or longer term.

The following liquidity and interest risk tables set out the weighted average effective interest rate and the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company required to pay:

	2007						2006					
	Weighted average effective interest rate	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**Total contractual undiscounted cash flow**	**Carrying amount**	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
The Group		***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables		**81,774**	**-**	**-**	**81,774**	**81,774**		54,721	–	–	54,721	54,721
Amount due to a jointly controlled entity		**2,140**	**-**	**-**	**2,140**	**2,140**		–	–	–	–	–
Bank borrowings	**7.161%**	**45,712**	**-**	**-**	**45,712**	**45,712**	6.967%	49,843	–	–	49,843	49,843
Other loans	**7.375%**	**31,565**	**6,013**	**-**	**37,578**	**37,165**	8.795%	23,843	6,063	–	29,906	29,416
Convertible bonds	**10.06%**	**-**	**-**	**606,800**	**606,800**	**380,030**		–	–	–	–	–
		161,191	**6,013**	**606,800**	**774,004**	**546,821**		128,407	6,063	–	134,470	133,980
The Company												
Trade and other payables		**11,160**	**-**	**-**	**11,160**	**11,160**		9,923	–	–	9,923	9,923
Convertible bonds	**10.06%**	**-**	**-**	**606,800**	**606,800**	**380,030**		–	–	–	–	–
		11,160	**-**	**606,800**	**617,960**	**391,190**		9,923	–	–	9,923	9,923

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

e) Fair Values of Financial Instruments

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

– the fair value of financial assets and financial liabilities are determined in accordance with generally pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statements approximate to their fair values.

7. TURNOVER

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

	2007	2006
	HK$'000	*HK$'000*
Network system integration		
Network infrastructure service	**299,124**	286,398
Network professional services	**58,781**	38,008
Sales of network software	**3,740**	2,205
	361,645	326,611
Lottery business management services		
Service fee income from management of electronic gaming machine lounges	**161**	–
Commission income	**130**	–
	291	–
	361,936	326,611

8. 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:

a) Network system integration; and

b) Lottery business management services

An analysis by business segments is as follows:

	Revenue		Results	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Network system integration	**361,645**	326,611	**12,890**	9,864
Lottery business management services	**291**	–	**(4,247)**	–
	361,936	326,611	**8,643**	9,864
Other income			**812**	639
Share of profits of jointly controlled entities				
Lottery business management services			**691**	–
Impairment loss on goodwill				
Lottery business management services			**(416,000)**	–
Impairment loss on intangible assets				
Network system integration			**(1,001)**	–
Unallocated corporate expenses			**(390)**	(342)
Finance costs			**(7,460)**	(4,104)
(Loss)/profit before taxation			**(414,705)**	6,057
Income tax expenses			**(1,676)**	(956)
(Loss)/profit for the year			**(416,381)**	5,101

8. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	2007 HK$'000	2006 HK$'000
BALANCE SHEET		
Assets		
Segment assets		
Network system integration	**278,933**	139,162
Lottery business management services		
Interests in jointly controlled entities	**97,633**	–
Lottery business management services	**793,188**	–
Unallocated corporate assets	**–**	61,579
Total assets	**1,169,754**	200,741
Liabilities		
Segment liabilities		
Network system integration	**139,949**	54,722
Lottery business management services	**29,005**	–
Unallocated corporate liabilities	**380,030**	80,806
Total liabilities	**548,984**	135,528
OTHER INFORMATION		
Capital expenditure		
Network system integration	**5,283**	3,643
Lottery business management services	**1,362**	–
	6,645	3,643
Depreciation and amortisation		
Network system integration	**4,785**	4,647
Lottery business management services	**2,546**	–
	7,331	4,647
Impairment loss on goodwill		
Lottery business management service	**416,000**	–
Impairment loss on intangible assets		
Network system integration	**1,001**	–
Impairment loss on trade and retention money receivables		
Network system integration	**6,829**	391

8. SEGMENT REPORTING *(Continued)*

Geographical segments

The Group's operations are located in the PRC and Hong Kong ("HK"). An analysis of the Group's geographical segment information is as follows:

	Revenue	
	2007	2006
	HK$'000	*HK$'000*
PRC, other than HK	**340,553**	305,263
HK	**21,383**	21,348
	361,936	326,611

An analysis of the carrying amount of segment assets and capital expenditure by the geographical area in which the assets are located is as follows:

	Carrying amount of segment assets		Capital expenditure incurred during the year	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
PRC, other than HK	**1,093,223**	191,104	**6,518**	3,630
HK	**76,531**	9,637	**127**	13
	1,169,754	200,741	**6,645**	3,643

9. EMPLOYEE BENEFITS COSTS

	2007	2006
	HK$'000	*HK$'000*
Directors' emoluments *(note 12)*	**1,958**	1,545
Other staff retirement benefits scheme contributions	**2,917**	3,030
Salaries wages and other benefits	**22,431**	18,376
Share-based payments expenses	**157**	56
Less: Staff costs capitalised in software product development costs	**(2,993)**	(2,432)
	24,470	20,575

10. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest expenses on bank borrowings wholly repayable within five years	**3,054**	3,127
Interest expenses on other loans wholly repayable within five years	**2,478**	977
Effective interest expenses on convertible bonds	**1,928**	–
	7,460	4,104

11. (LOSS)/PROFIT BEFORE TAXATION

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

	2007	2006
	HK$'000	*HK$'000*
Amortisation of intangible assets	**5,410**	2,689
Auditor's remuneration	**990**	470
Cost of inventories	**282,323**	268,055
Depreciation of property, plant and equipment	**1,921**	1,958
Impairment loss on goodwill	**416,000**	–
Impairment loss on intangible assets	**1,001**	–
Impairment loss on inventories	**854**	551
Impairment loss on trade and retention money receivables	**6,829**	391
Loss on disposal of property, plant and equipment	**2**	–
Write off of property, plant and equipment	**–**	15
Operating lease rentals in respect of minimum lease payments of land and buildings	**2,929**	2,096
Research and development costs	**361**	329
Exchange loss/(gain)	**50**	(351)
Bank interest income	**(523)**	(227)
Other interest income	**(78)**	–
Reversal of impairment loss on trade and retention money receivables recognised in prior years	**–**	(1,444)

12. DIRECTORS' EMOLUMENTS

Year ended 31 December 2007

	Chan Sek Keung, Ringo	Alasdair Gordon Nagle	Clara Ho	Kwan Kit Tong, Kevin	Pang Hing Chung, Alfred	David Tsoi	Yu Zhonghou	Chan Tze Ngon	So Lie Mo Raymond	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	note 1	*note 3, 8*	*note 3, 8*	*note 3, 9*	*note 4*	*note 4*	*note 4, 7*	*note 4, 5*	*note 4, 6*	
Fees	–	–	–	–	120	120	6	41	39	326
Other emoluments										
Salaries and other benefits	1,599	–	–	–	–	–	–	–	–	1,599
Contributions to retirement benefits schemes	12	–	–	–	–	–	–	–	–	12
Share-based payments expenses	1	–	–	–	1	19	–	–	–	21
Total emoluments	1,612	–	–	–	121	139	6	41	39	1,958

Year ended 31 December 2006

	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 3, 8*	*note 3, 8*	*note 3, 9*	*note 4*	*note 4*	*note 4, 7*	
Fees	–	–	–	–	120	120	72	312
Other emoluments								
Salaries and other benefits	1,191	–	–	–	–	–	–	1,191
Contributions to retirement benefits schemes	12	–	–	–	–	–	–	12
Share-based payments expenses	9	3	3	3	6	6	–	30
Total emoluments	1,212	3	3	3	126	126	72	1,545

12. DIRECTORS' EMOLUMENTS *(Continued)*

Note 1: Chairman and executive director
Note 2: Executive director
Note 3: Non-executive director
Note 4: Independent non-executive director
Note 5: Appointed on 1 May 2007 and resigned on 5 September 2007
Note 6: Appointed on 5 September 2007
Note 7: Resigned on 1 February 2007
Note 8: Resigned on 13 April 2007
Note 9: Resigned on 26 August 2007

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.

13. FIVE HIGHEST PAID EMPLOYEES

The aggregate emoluments of the five highest paid individuals included one (2006: one) executive director of the Company, whose emoluments are included in note 12 above. The aggregate emoluments of the remaining four (2006: four) highest paid individuals are as follows:

	2007	2006
	HK$'000	*HK$'000*
Basic salaries and allowances	**2,393**	1,972
Retirement benefits scheme contributions	**72**	106
Share-based payments expenses	**59**	13
	2,524	2,091

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

14. INCOME TAX EXPENSES

a) Income tax in the consolidated income statement represents:

	2007	2006
	HK$'000	*HK$'000*
Current tax – Provision for PRC enterprise income tax		
Provision for the year *(note 31)*	**1,676**	956
Deferred taxation		
Origination and reversal of temporary differences *(note 38)*	**–**	–
	1,676	956

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 2007 and 2006.

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

Certain subsidiaries of the Group operating in the PRC are eligible for certain tax holidays and concessions and were exempted from PRC income tax.

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No.63 of the President of the People's Republic of China. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries of the Group from 1 January 2008. The Group has unutilised tax losses available for offset against future profits; therefore, there is no impact on the deferred tax balance of the Group.

14. INCOME TAX EXPENSES *(Continued)*

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

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

	2007	2006
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(414,705)**	6,057
Notional tax at the rates applicable to profits in the tax jurisdictions concerned	**72,421**	(1,403)
Tax effect of non-deductible expenses	**(113,267)**	(35,907)
Tax effect of non-taxable income	**39,032**	37,599
Tax effect of unrecognised tax losses	**(14)**	(1,321)
Tax effect of utilisation of tax losses previously not recognised	**221**	187
Tax effect of temporary timing differences	**(69)**	(111)
Income tax expenses	**(1,676)**	(956)

15. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity holders of the Company included a loss of HK$1,935,000 (2006: profit of HK$389,000) which has been dealt with in the financial statements of the Company.

16. (LOSS)/EARNINGS PER SHARE

a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company of approximately HK$415,448,000 (2006: profit of HK$5,101,000) and the weighted average of 298,846,213 (2006: 289,944,745) ordinary shares in issue during the year.

b) Diluted (loss)/earnings per share

No diluted loss per share is presented during the year ended 31 December 2007 as the exercises of the potential dilutive ordinary shares would result in a reduction in loss per share.

The diluted earnings per share during the year ended 31 December 2006 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 year ended 31 December 2006.

17. DIVIDENDS

No dividend was paid or proposed during the years ended 31 December 2006 and 2007.

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Lottery terminals *HK$'000*	Machinery and equipment *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Tools *HK$'000*	Total *HK$'000*
Cost						
At 1 January 2006	–	9,572	1,915	894	6,232	18,613
Exchange differences	–	98	21	7	75	201
Additions	–	261	102	256	222	841
Write off	–	(338)	(179)	–	(23)	(540)
At 31 December 2006 and 1 January 2007	–	9,593	1,859	1,157	6,506	19,115
Exchange differences	386	531	723	61	425	2,126
Additions	–	1,563	852	–	888	3,303
Disposal	–	(483)	(107)	–	(591)	(1,181)
Acquisition of subsidiaries *(note 39)*	9,942	1,476	16,151	–	47	27,616
At 31 December 2007	10,328	12,680	19,478	1,218	7,275	50,979
Accumulated depreciation						
At 1 January 2006	–	8,505	1,755	504	4,707	15,471
Exchange differences	–	92	19	6	62	179
Charge for the year	–	705	127	221	905	1,958
Written back on write off	–	(335)	(179)	–	(11)	(525)
At 31 December 2006 and 1 January 2007	–	8,967	1,722	731	5,663	17,083
Exchange differences	4	484	117	43	385	1,033
Charge for the year	95	628	358	90	750	1,921
Written back on disposal	–	(450)	(107)	–	(552)	(1,109)
At 31 December 2007	99	9,629	2,090	864	6,246	18,928
Net book value						
At 31 December 2007	10,229	3,051	17,388	354	1,029	32,051
At 31 December 2006	–	626	137	426	843	2,032

19. GOODWILL

The Group	*HK$'000*
Cost	
At 1 January 2006, 31 December 2006 and 1 January 2007	–
Acquisition of subsidiaries *(note 39)*	901,026
At 31 December 2007	901,026
Accumulated impairment loss	
At 1 January 2006, 31 December 2006 and 1 January 2007	–
Impairment loss	416,000
At 31 December 2007	416,000
Carrying amount	
At 31 December 2007	485,026
At 31 December 2006	–

Notes:

a) During the year, the Group has acquired 80% equity interest in PAL Development Limited ("PAL") and 60% equity interest in Oasis Rich International Limited ("Oasis") for a consideration of approximately HK$1,163,314,000 and incurred a goodwill of approximately HK$901,026,000, as further detailed in note 39.

b) Impairment tests for cash-generating units containing goodwill

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purpose of impairment testing, goodwill with indefinite useful lives has been allocated to the cash generating unit ("CGU") of lottery business management services only.

During the year, the Group performed an impairment review for goodwill with reference to the valuation carried out by Vigers Appraisal & Consulting Limited, independent qualified professional valuers not connected with the Group. The valuation is based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management of the Group covering a five-year period and extrapolated cash flows for the following further five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

19. GOODWILL *(Continued)*

b) Impairment tests for cash-generating units containing goodwill *(Continued)*

Key assumptions used for value-in-use calculations:

	2007	2006
	%	%
Gross margin	**52**	–
Growth rate	**5**	–
Discount rate	**14**	–

The management of the Group determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with the forecasts in the relevant industry. The discount rate used reflects specific risks relating to the relevant segment. The recoverable amount of the CGU based on value-in-use calculations is less than its carrying amount, accordingly, an impairment loss of HK$416,000,000 of CGU of lottery business management services was recognised during the year.

20. INTANGIBLE ASSETS

The Group

	Software product development costs HK$'000	License rights HK$'000	Technology know-how HK$'000	Total HK$'000
Cost				
At 1 January 2006	15,502	–	–	15,502
Exchange differences	136	–	–	136
Additions	2,802	–	–	2,802
At 31 December 2006 and 1 January 2007	18,440	–	–	18,440
Exchange differences	991	–	–	991
Additions	3,342	–	–	3,342
Acquisition of subsidiaries *(note 39)*	–	164,166	25,252	189,418
At 31 December 2007	22,773	164,166	25,252	212,191
Accumulated amortisation				
At 1 January 2006	7,975	–	–	7,975
Exchange differences	23	–	–	23
Charge for the year	2,689	–	–	2,689
At 31 December 2006 and 1 January 2007	10,687	–	–	10,687
Exchange differences	382	–	–	382
Charge for the year	3,102	2,036	272	5,410
Impairment loss	1,001	–	–	1,001
At 31 December 2007	15,172	2,036	272	17,480
Carrying amount				
At 31 December 2007	7,601	162,130	24,980	194,711
At 31 December 2006	7,753	–	–	7,753

20. INTANGIBLE ASSETS *(Continued)*

The Group *(Continued)*

Notes:

a) Software product development costs are internally generated. All of the Group's license rights and technology know-how were acquired as part of a business combination during the year, as further detailed in note 39.

b) All the above intangible assets have definite useful lives and are amortised on a straight-line basis over their estimated useful lives not more than five years. The amortisation charge for the year is included in depreciation and amortisation in the consolidated income statement.

21. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**1,163**	10
Less: Provision for impairment loss	**(1,163)**	(10)
	–	–
Amount due from a subsidiary *(note a)*	**1,163,314**	–
	1,163,314	–

21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

a) During the year, the Company provided a loan of approximately HK$1,163,314,000 to a wholly-owned indirectly subsidiary, Rising Move International Limited, for its acquisition of 80% equity interest in PAL and 60% equity interest in Oasis, as further detailed in note 39, for a consideration of approximately HK$1,163,314,000. The loan is interest-free, unsecured and settlement is neither planned nor likely to occur in the foreseeable future.

b) As at 31 December 2007, the details of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ establishment and operations	Nominal value of issued registered capital	Equity interests held by the Group Direct	Equity interests held by the Group Indirect	Principal activities
Wafer Systems Holdings Limited	HK	HK$10,000	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%	Operation of businesses in network system integration
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%	Operation of businesses in network system integration
Wafer Systems (China) Limited	HK	HK$10,000	–	100%	Operation of businesses in network system integration
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#	USD600,950	–	100%	Research and development
Wafer Systems (Hong Kong) Limited	HK	HK$10,000	–	100%	Operation of businesses in network system integration

21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes: (Continued)

b) As at 31 December 2007, the details of the Company's principal subsidiaries are as follows: *(Continued)*

Name of subsidiary	Place of incorporation/ establishment and operations	Nominal value of issued registered capital	Equity interests held by the Group Direct	Equity interests held by the Group Indirect	Principal activities
Rising Move International Limited	BVI	USD1	–	100%	Investment holding
Precious Success Holding Limited	BVI	USD1	–	100%	Investment holding
PAL Development Limited	HK	HK$250,000,000	–	80%	Investment holding
Global Score Asia Limited	BVI	USD20,000	–	100%	Investment holding
Trade Express Services Inc.	BVI	USD20,000	–	80%	Investment holding
寶加(北京)信息技術有限公司	PRC for a term of 12 years commencing 13 December 2006#	HK$36,000,000	–	100%	Management of electronic gaming machine lounges
北京華盈風彩科技有限公司	PRC for a term of 12 years commencing 13 March 2007##	RMB10,000,000	–	100%	Management of electronic gaming machine lounges
山東省開創紀元電子商務信息有限公司	PRC##	RMB2,667,000	–	60%	Agency service for sale of gaming products
Oasis Rich International Limited	Republic of Mauritius	USD700,000	–	60%	Investment holding
伍盛計算機科技上海有限公司	PRC for a term of 30 years commencing on 17 April 2007#	USD70,000	–	100%	Not commenced business

These are wholly-owned foreign enterprises established in the PRC.

These are private limited liability companies 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.

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Unlisted investments in jointly controlled entities, at cost	**96,942**	–
Share of post-acquisition profits	**691**	–
	97,633	–

Notes:

a) As at 31 December 2007, the details of the jointly controlled entities are as follows:

Name of jointly controlled entity	Place of incorporation/ establishment and operations	Nominal value of paid up issued/ registered capital	Equity interests held by the Group Direct	Equity interests held by the Group Indirect	Principal activities
PALTECH Company Limited ("PALTECH")	HK	HK$10,000	–	60%	Research and development
Beijing Telenet Information Technology Limited ("BTI") *(note b)* 北京電信達信息技術有限公司	PRC for a term of 30 years commencing from 10 August 2006#	RMB10,000,000	–	51%	Distribution of point of sale system and operation of betting hall

\# *This is a wholly-owned foreign enterprise established in the PRC.*

b) The unlisted investments in jointly controlled entities were acquired as part of a business combination during the year, as further detailed in note 39. Included in the cost of investment in jointly controlled entities is a goodwill of a jointly controlled entity, BTI, acquired by the Group's subsidiary PAL in previous year. The movement of the goodwill is set out below:

	HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007	–
Goodwil of BTI	70,413
31 December 2007 *(note e)*	70,413

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Notes: (Continued)

c) The Group indirectly owns 60% equity interest in PALTECH. Pursuant to certain terms and conditions given in a shareholder agreement, the financial and operating policies of PALTECH require approval from 75% of equity holders, as such, it is accounted for as a jointly controlled entity of the Group.

d) The Group indirectly owns 51% equity interest in BTI. Pursuant to a shareholder agreement between the shareholders of BTI, BTI is jointly controlled with other significant equity holders. Therefore, BTI is classified as a jointly controlled entity of the Group.

e) During the year, the Group performed an impairment review for goodwill with reference to the valuation carried out by Vigers Appraisal & Consulting Limited, independent qualified professional valuers not connected with the Group. The valuation is based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the management of the Group covering a five-year period and extrapolated cash flows for the following further five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2007	2006
	%	%
Gross margin	**45**	–
Growth rate	**6**	–
Discount rate	**14**	–

The management of the Group determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rate used is consistent with the relevant industry. The discount rate used reflects specific risks relating to the relevant segment. The recoverable amount of the CGU based on value-in-use calculations is higher than its carrying amount, accordingly, no impairment loss was recognised during the year.

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Notes: (Continued)

f) The summarised financial information in respect of the Group's jointly controlled entities which are accounted for using equity method of accounting is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Non-current assets	**16,188**	–
Current assets	**55,128**	–
Current liabilities	**(43,342)**	–
Non-current liabilities	**–**	–

	2007	2006
	HK$'000	*HK$'000*
Income	**6,002**	–
Expense	**(5,311)**	–

23. LOAN RECEIVABLE

The loan is interest-free, unsecured and repayable in February 2009. In the opinion of the management of the Group, the carrying amount of loan receivable approximates its fair value.

24. INVENTORIES

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Merchandise	**12,057**	5,602

25. TRADE AND OTHER RECEIVABLES

		The Group		The Company	
		2007	2006	**2007**	2006
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amount due from a subsidiary	*(a)*	**–**	–	**166,207**	59,213
Trade receivables	*(b), (c)*	**102,441**	113,079	**–**	–
Retention money receivables	*(d)*	**11,596**	10,696	**–**	–
Other receivables		**30,020**	7,458	**–**	112
Prepaid maintenance charges	*(e)*	**17**	1,832	**–**	–
Prepayment and deposits		**15,787**	–	**162**	–
		159,861	133,065	**166,369**	59,325

Notes:

a) The amount due from a subsidiary is interest-free, unsecured and repayable on demand.

b) An ageing analysis of trade receivables at the balance sheet date is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Age		
0 to 30 days	**25,539**	40,652
31 to 90 days	**25,444**	38,100
91 to 180 days	**24,067**	17,285
181 to 365 days	**20,409**	15,909
Over 365 days	**17,544**	4,224
	113,003	116,170
Less: Impairment loss	**(10,562)**	(3,091)
	102,441	113,079

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.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

c) Impairment of trade receivables

Impairment losses in respect of trade debtors are recorded using an allowance account unless the management of the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is made against trade receivables directly (see note (3h)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**3,091**	2,986
Impairment loss recognised during the year	**6,829**	391
Reversal of impairment loss recognised in prior years	**–**	(1,444)
Exchange differences	**642**	1,158
At 31 December	**10,562**	3,091

Trade receivables are collectively considered to be impaired in accordance with their ageing.

The ageing analysis of trade receivables that are past due but not impaired:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Over 90 days	**62,020**	37,418

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the management of the Group believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

d) Retention money receivable represents the progress payments receivable on the contract works of network infrastructure with age over 180 days.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

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

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

26. AMOUNT DUE FROM/(TO) A JOINTLY CONTROLLED ENTITY

The amounts are interest-free, unsecured and repayable on demand.

27. AMOUNT DUE FROM A SHAREHOLDER OF A JOINTLY CONTROLLED ENTITY

The amount is interest-bearing at 5% per annum, unsecured and repayable in February 2008.

28. PLEDGED BANK DEPOSITS

The deposits have been pledged to secure the banking facilities extended to the Group. Deposits amounting to HK$12,424,000 (2006: HK$5,013,000) carrying at prevailing market interest rate. The management of the Group considers that the carrying amount of deposits approximates their fair value. The pledged bank deposits will be released upon the settlement of the relevant bank borrowings.

29. CASH AND CASH EQUIVALENTS

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Deposits with banks	**60,000**	5,155
Cash at bank and in hand	**83,816**	42,121
Cash and cash equivalents in the consolidated balance sheet and consolidated cash flow statement	**143,816**	47,276

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 management of the Group considers that the carrying amounts of cash and cash equivalents approximate their fair value.

30. TRADE AND OTHER PAYABLES

		The Group		The Company	
		2007	2006	**2007**	2006
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Amounts due to subsidiaries	*(a)*	**–**	–	**10,266**	9,923
Trade payables	*(b)*	**33,097**	43,480	**–**	–
Other payables		**48,677**	11,241	**894**	–
		81,774	54,721	**11,160**	9,923

a) The amounts due to subsidiaries are interest-free, unsecured and repayable on demand.

b) An ageing analysis of trade payables at the balance sheet date is as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Age		
0 to 30 days	**22,659**	11,996
31 to 90 days	**6,320**	26,637
91 to 180 days	**1,404**	3,024
181 to 365 days	**919**	949
Over 365 days	**1,795**	874
	33,097	43,480

31. TAX PAYABLE

	The Group	
	2007	2006
	HK$'000	*HK$'000*
PRC enterprise income tax		
At 1 January	**1,548**	824
Provision for the year *(note 14(a))*	**1,676**	956
PRC enterprise income tax paid	**(1,061)**	(232)
At 31 December	**2,163**	1,548

32. BANK BORROWINGS

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Short-term bank loan repayable within one year	**16,050**	14,563
Trust receipts and import loans	**29,662**	35,280
	45,712	49,843
Analysed by:		
– Secured	**23,058**	6,208
– Unsecured	**22,654**	43,635
	45,712	49,843

Short-term bank loan is arranged at fixed interest rate of 6.732% (2006: 6.138%) per annum.

Trust receipts and import loans are arranged at prevailing market rates ranging from 6.93% to 8.25% (2006: 7.34% to 8.25%).

The management of the Group considers that the carrying amounts of bank borrowings approximate their fair value.

33. OTHER LOANS

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Current portion repayable within one year	**31,565**	23,843
Non-current portion repayable after one year but within two years	**5,600**	5,573
	37,165	29,416

Other loans represent advances from a financial institution which is related to a major supplier of the Group. The amounts are unsecured, interest-bearing at rates ranging from 6.69% to 8.06% (2006: 8.05% to 9.54%) and have fixed terms of repayment.

34. CONVERTIBLE BONDS

On 13 December 2007, the Company issued convertible bonds (the "Bonds") with face value of HK$606,800,000 as part of the consideration of the acquisition of PAL and Oasis, as further detailed in note 39(a). The Bonds are recognised in these financial statements at fair value of approximately HK$989,794,000 at the date of completion of the acquisition of PAL and Oasis in accordance with HKFRS 3 "Business Combinations". The Bonds are interest-bearing at 0.1% per annum payable semi-annually in arrears and are redeemable within five years ("Conversion Period") from the date of issue of the Bonds.

The Bonds can be converted into ordinary shares of the Company of HK$0.01 each at any time during the Conversion Period at a fixed conversion price of HK$0.85.

The fair values of the liability component and the equity conversion component were determined at issuance of the Bonds. The fair value of the liability component, included in long-term borrowings, was calculated at effective interest rate of 10.06% per annum.

During the year, no Bonds were converted into the ordinary shares of the Company.

The Bonds recognised in the balance sheet are calculated as follows:

	The Group and the Company	
	2007	2006
	HK$'000	*HK$'000*
Face value of the Bonds issued on 13 December 2007	**606,800**	–
Increase in face value to fair value	**382,994**	–
Fair value of the Bonds	**989,794**	–
Equity component	**(611,692)**	–
Liability component on initial recognition at 13 December 2007	**378,102**	–
Accrued interest capitalised	**1,928**	–
Liability component at 31 December 2007	**380,030**	–

35. SHARE CAPITAL

	Notes	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each			
Authorised:			
At 1 January 2006, 31 December 2006 and 1 January 2007		500,000,000	5,000
Increase in share capital on 5 December 2007	*(a)*	1,500,000,000	15,000
At 31 December 2007		2,000,000,000	20,000
Issued and fully paid:			
At 1 January 2006, 31 December 2006 and 1 January 2007		289,944,745	2,900
Shares issued on acquisition of subsidiaries	*(b)*	72,000,000	720
Issue of new shares	*(c)*	58,000,000	580
Exercise of share options		12,253,750	122
At 31 December 2007		432,198,495	4,322

Notes:

a) By a special resolution passed at an extraordinary general meeting of the Company held on 5 December 2007, the authorised share capital of the Company was increased from 500 million to 2,000 million ordinary shares of HK$0.01 each.

b) On 13 December 2007, the Company issued and allotted 72,000,000 ordinary shares of the Company of HK$0.01 each at the issue price of HK$0.85 each as part of the consideration for the acquisition of PAL and Oasis, as further detailed in note 39(a). These shares rank pari passu in all respects with other shares in issue.

c) On 19 December 2007, the Company issued and allotted 58,000,000 ordinary shares of the Company of HK$0.01 each at the issue price of HK$1.8 each to certain subscribers, pursuant to the subscription agreement entered into between the Company and the subscribers. These shares rank pari passu in all respects with other shares in issue. The details of the above transaction refer to the Company's announcement dated 31 October 2007.

36. RESERVES

a) The Group

	2007	2006
	HK$'000	*HK$'000*
Share premium *(note i)*	**334,020**	55,824
Share-based payments reserve	**359**	643
Statutory surplus reserve *(note ii)*	**1,505**	1,505
Enterprise expansion fund *(note iii)*	**502**	502
Convertible bonds equity reserve	**611,692**	–
Exchange reserve *(note iv)*	**4,483**	1,196
(Accumulated losses)/Retained earnings	**(412,805)**	2,643
	539,756	62,313

Details of the movements in the above reserves during the year are set out in the consolidated statement of changes in equity on page 42.

Notes:

i) **Share premium**
The share premium account of the Group represents the excess of proceeds received over the nominal value of the Company's shares issued, less amounts attributable to the capitalisation issue and share issue expenses.

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 the 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) **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(p).

36. RESERVES *(Continued)*

b) The Company

	Share premium HK$'000 *note 36(a)(i)*	Share-based payments reserve HK$'000	Convertible bonds equity reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006	55,824	587	–	(10,354)	46,057
Profit for the year	–	–	–	389	389
Recognition of equity settled share-based payments	–	56	–	–	56
At 31 December 2006 and 1 January 2007	55,824	643	–	(9,965)	46,502
Loss for the year	–	–	–	(1,935)	(1,935)
Recognition of equity settled share-based payments	–	157	–	–	157
Exercise of share options, net of expenses	4,305	(441)	–	–	3,864
Recognition of equity component of convertible bonds	–	–	611,692	–	611,692
Issue of new shares	103,555	–	–	–	103,555
Transaction costs attributable to issue of new shares	(2,464)	–	–	–	(2,464)
Shares issued on acquisition of subsidiaries *(note 39)*	172,800	–	–	–	172,800
At 31 December 2007	334,020	359	611,692	(11,900)	934,171

36. RESERVES *(Continued)*

b) The Company *(Continued)*

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.

At 31 December 2007, the aggregate amount of the Company's reserves available for distribution to shareholders was approximately HK$322,120,000 (2006: HK$45,859,000) 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$334,020,000 (2006: HK$55,824,000) less accumulated losses of approximately HK$11,900,000 (2006: HK$9,965,000), 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.

37. 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 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.

37. 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	Number of share options: Outstanding at 1/1/2006	Forfeited during the year	Outstanding at 31/12/2006 and 1/1/2007	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2007
			HK$						
Directors	30/4/2002 *(note 2)*	17/11/2002 to 29/4/2012	0.55	3,750,000	–	3,750,000	(750,000)	–	3,000,000
Others	30/4/2002 *(note 2)*	17/11/2002 to 29/4/2012	0.55	5,005,000	(445,000)	4,560,000	(3,613,000)	(10,000)	937,000
				8,755,000	(445,000)	8,310,000	(4,363,000)	(10,000)	3,937,000

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.

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.

37. 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 2007 Number of share options				
Type of participants	Date of grant	Exercisable period	Exercise price per share	Outstanding at 1/1/2007	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31/12/2007
			HK$					
Directors	20/2/2003 *(note 3)*	20/2/2004 to 19/2/2013	0.138	3,825,000	–	(2,625,000)	–	1,200,000
	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	–	750,000	–	–	750,000
	7/12/2007 *(note 4)*	7/6/2008 to 6/12/2009	2.720	–	1,150,000	–	–	1,150,000
Employees	12/7/2002 *(note 2,3)*	12/7/2003 to 11/7/2012	0.384	2,025,000	–	(2,009,000)	–	16,000
	20/2/2003 *(note 3)*	20/2/2004 to 19/2/2013	0.138	1,961,000	–	(1,926,000)	(10,000)	25,000
	10/10/2003 *(note 3)*	10/10/2004 to 9/10/2013	0.142	135,000	–	(130,000)	(5,000)	–
	23/2/2004 *(note 3)*	23/2/2005 to 22/2/2014	0.165	1,458,000	–	(1,045,500)	(10,000)	402,500
	11/10/2004 *(note 3)*	11/10/2005 to 10/10/2014	0.124	315,000	–	(155,250)	(47,000)	112,750
	12/1/2007 *(note 3)*	12/1/2008 to 11/1/2017	0.088	–	6,230,000	–	–	6,230,000
	7/12/2007 *(note 4)*	7/6/2008 to 6/12/2009	2.720	–	3,668,000	–	–	3,668,000
Adviser *(note 1)*	20/2/2003 *(note 3)*	20/2/2004 to 19/2/2013	0.138	300,000	–	–	–	300,000
				10,019,000	11,798,000	(7,890,750)	(72,000)	13,854,250
Number of options exercisable at 31 December 2007								1,627,250

37. SHARE OPTIONS *(Continued)*

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

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

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 HKFRS 2 " Share-based Payment" 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.

37. SHARE OPTIONS *(Continued)*

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

Note 3: These grants under the post-IPO share option scheme are exercisable for a period not later 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.

Note 4: These grants under the post-IPO share option scheme are exercisable for a period not later than 2 years from the date of grant, within which there is a total vesting period of one year, starting from the first anniversary of the grant date at stepped annual increments of 50% of the total options granted.

These fair values were calculated using the Block-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**	**12/1/2007**	**7/12/2007**
Closing share price immediately before date of grant	HK$0.138	HK$0.142	HK$0.165	HK$0.124	HK$0.088	HK$2.60
Exercise price	HK$0.138	HK$0.142	HK$0.165	HK$0.124	HK$0.088	HK$2.72
Expected volatility	89.07%	69.88%	62.76%	59.19%	64.16%	125.92%
Expected options life	5 years	5 years	5 years	5 years	5 years	1.25 years
Risk-free interest rate	3.087%	3.183%	2.65%	2.98%	3.81%	2.59%
Expected dividend yield	N/A	N/A	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$157,000 for the year ended 31 December 2007 (2006: HK$56,000) in relation to share options granted by the Company.

38. DEFERRED TAXATION

At the balance sheet date, the Group has unutilised tax losses of approximately HK$27,787,000 (2006: HK$9,333,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. These tax losses may be carried forward indefinitely.

39. ACQUISITION OF SUBSIDIARIES

On 13 December 2007, the Group acquired 80% equity interest in PAL and 60% equity interest in Oasis for a consideration of approximately HK$1,163,314,000. The acquisition has been accounted for using the purchase method of accounting. The amount of goodwill arising from the acquisition was approximately HK$901,026,000.

The net assets acquired in the above transaction and the goodwill arising therefrom are as follows:

	PAL			Oasis			Total		
	Acquiree's carrying amount before combination	Fair value adjustment	Acquiree's fair value recognised on acquisition	Acquiree's carrying amount before combination	Fair value adjustment	Acquiree's fair value recognised on acquisition	Acquiree's carrying amount before combination	Fair value adjustment	Acquiree's fair value recognised on acquisition
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net assets acquired:									
Property, plant and equipment *(note 18)*	25,349	–	25,349	2,267	–	2,267	27,616	–	27,616
Intangible assets *(note 20)*	53,491	86,251	139,742	–	49,676	49,676	53,491	135,927	189,418
Interests in jointly control entities	96,942	–	96,942	–	–	–	96,942	–	96,942
Loan receivable	396	–	396	–	–	–	396	–	396
Trade and other receivables	22,599	–	22,599	848	–	848	23,447	–	23,447
Cash and cash equivalents	9,940	–	9,940	1,451	–	1,451	11,391	–	11,391
Amount due from a jointly control entity	1,431	–	1,431	–	–	–	1,431	–	1,431
Amount due from a shareholder of a jointly control entity	32,343	–	32,343	–	–	–	32,343	–	32,343
Trade and other payables	(28,750)	–	(28,750)	(2,272)	–	(2,272)	(31,022)	–	(31,022)
Amounts due to related companies	(12,049)	–	(12,049)	–	–	–	(12,049)	–	(12,049)
	201,692	86,251	287,943	2,294	49,676	51,970	203,986	135,927	339,913
Minority interests									(77,625)
									262,288
Goodwill *(note 19)*									901,026
Consideration									1,163,314

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

	HK$'000
Consideration is satisfied by:	
Issue of convertible bonds	
Face value of convertible bonds	606,800
Increase in face value to fair value	382,994
Fair value of convertible bonds *(note 39(a))*	989,794
Issue of new shares	
Shares issued at issue price	61,200
Increase in fair value	112,320
Fair value of share consideration *(note 39(a))*	173,520
Total purchase consideration	1,163,314
Net cash inflow arising from acquisition	
Cash and cash equivalents acquired	11,391

Notes:

a) The consideration for the acquisition of PAL and Oasis includes the convertible bonds of the Company with face value of HK$606,800,000 (note 34) and the 72,000,000 ordinary shares of the Company of HK$0.01 each at an issue price of HK$0.85 each (note 35(b)). The fair value of the convertible bonds and the ordinary shares of the Company, determined using the published price available at the date of acquisition, were approximately HK$989,794,000 and HK$173,520,000 respectively.

b) PAL and Oasis contributed a loss of approximately HK$3,283,000 to the Group's results for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2007, total revenue for the year would have been increased by approximately HK$4,017,000 and loss for the year would have been increased by approximately HK$33,957,000. The pro-forma information is for illustrative purposes only and is not necessarily and indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2007, nor is it intended to be projection of future results.

40. COMMITMENTS

(a) Operating lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Within one year	**6,093**	2,366
In the second to fifth year inclusive	**5,995**	989
	12,088	3,355

Operating lease payments represent the rental payable by the Group for certain buildings. The lease payments are fixed for an average of 1.8 years (2006:1.5 years) and no arrangements have been entered into for contingent rental payments.

The Company had no operating lease commitments at the balance sheet date.

b) Capital commitments

At the balance sheet date, the capital commitments contracted but not provided for in the financial statements are as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Capital contribution on		
– investment in a subsidiary	**2,675**	–
– acquisition of intangible assets	**1,070**	–
	3,745	–

The Company had no capital commitments at the balance sheet date.

41. 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 contributions are 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.

42. PLEDGE OF ASSETS

At 31 December 2007, the following assets were pledged to banks to secure the general banking facilities granted to the Group:

	2007	2006
	HK$'000	*HK$'000*
Pledged bank deposits *(note 28)*	**12,424**	5,013
Trade receivables	**–**	6,920
	12,424	11,933

43. FINANCIAL GUARANTEE ISSUED

During the year ended 31 December 2007, the Company had given corporate guarantee to certain banks in respect of banking facilities of approximately HK$77,472,000 (2006: HK$50,400,000) granted to certain subsidiaries of the Group. The maximum liability of the Company under the guarantee issued represented the banking facilities granted to these subsidiaries of totalling approximately HK$39,000,000 (2006: HK$45,000,000). In the opinion of the management of the Group, it was not probable that a claim would be made against the Company under the guarantee issued; therefore, financial guarantee liabilities have not been recognised in the financial statements for the years ended 31 December 2006 and 2007.

44. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the financial statements, the Group and the Company had the following transactions with related parties during the year:

a) **Compensation of key management personnel**

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

	2007	2006
	HK$'000	*HK$'000*
Short-term benefits	**3,417**	2,730
Post-employment benefits	**72**	79
Share-based payments	**52**	19
	3,541	2,828

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.

45. MAJOR NON-CASH TRANSACTIONS

The consideration for the acquisition of PAL and Oasis comprises the shares and the Bonds of the Company, as further detailed in note 39.

46. POST BALANCE SHEET EVENTS

a) On 9 January 2008, Wu Sheng Computer Technology (Shanghai) Co., Limited ("Wu Sheng"), an indirect subsidiary of the Group, entered into (i) a purchase agreement with Firich Enterprise Co., Ltd ("Firich") to purchase the materials and unfinished parts for manufacture of point-on-sale and lottery vending terminals from Firich at the maximum amounts of approximately HK$265,000,000, HK$275,000,000 and HK$350,000,000 for the three years ending 31 December 2008, 2009 and 2010 respectively; and (ii) a sale agreement for sale of point-on-sale and lottery vending terminals to Firich at the maximum amounts of approximately HK$115,000,000, HK$200,000,000 and HK$260,000,000 for the three years ending 31 December 2008, 2009 and 2010 respectively. Firich is a shareholder of the substantial shareholder, Power Way Group Limited, of the Company. The details of the above transaction refer to the Company's announcement dated 9 January 2008.

46. POST BALANCE SHEET EVENTS *(Continued)*

b) On 26 March 2008, the Company changed its name from Wafer Systems Limited to "Melco LottVentures Limited". The details refer to the Company's announcement dated 26 March 2008.

c) On 28 February 2008, Gain Advance Group Limited, a wholly owned subsidiary incorporated by the Group in 2008, entered into an agreement with Ho Sung Nam ("Mr. Ho"), who is a shareholder of KTeMS Co., Ltd ("KTeMS") and director of the Group's jointly controlled entity, and certain independent third parties for the acquisition of the entire issued share capital of KTeMS, which was incorporated in Korea with limited liability, for a consideration of US$12,000,000 (equivalent to approximately HK$93,600,000) and the acquisition of the debts due from KTeMS of approximately HK$78,720,000. The acquisition consideration of US$12,000,000 is satisfied by (i) cash of US$3,500,000 (equivalent to approximately HK$27,300,000); (ii) the Company's new shares of US$6,500,000 (equivalent to approximately HK$50,700,000); and (iii) the reassignment of loans due from Mr. Ho to the Group and LottVision Limited ("LottVision") of approximately HK$7,400,000 and HK$8,200,000 respectively. LottVision is a shareholder of the substantial shareholder, Power Way Group Limited, of the Company. The details of the above transaction refer to the Company's announcement dated 6 March 2008.

	Year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(restated)	*(restated)*	*(restated)*		
RESULTS					
Turnover	165,879	269,688	368,250	326,611	**361,936**
Profit/(loss) before taxation	976	3,174	2,075	6,057	**(414,705)**
Income tax expenses	(285)	(473)	(632)	(956)	**(1,676)**
Profit/(loss) for the year	691	2,701	1,443	5,101	**(416,381)**
Profit/(loss) attributable to:					
Equity holders of the Company	691	2,736	1,443	5,101	**(415,448)**
Minority interest	–	(35)	–	–	**(933)**
Profit/(loss) for the year	691	2,701	1,443	5,101	**(416,381)**

	As at 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(restated)	*(restated)*			
ASSETS AND LIABILITIES					
Total assets	124,723	138,763	152,516	200,741	**1,169,754**
Total liabilities	(70,463)	(81,480)	(93,090)	(135,528)	**(548,984)**
	54,260	57,283	59,426	65,213	**620,770**
Total equity attributable to equity holders of the Company	54,260	57,283	59,426	65,213	**544,078**
Minority interest	–	–	–	–	**76,692**
	54,260	57,283	59,426	65,213	**620,770**



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Melco LottVentures Limited (the "Company") will be held at Units 901-7, 9th Floor, Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong on Monday, 28 April 2008 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 2007;

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. David Tsoi, 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

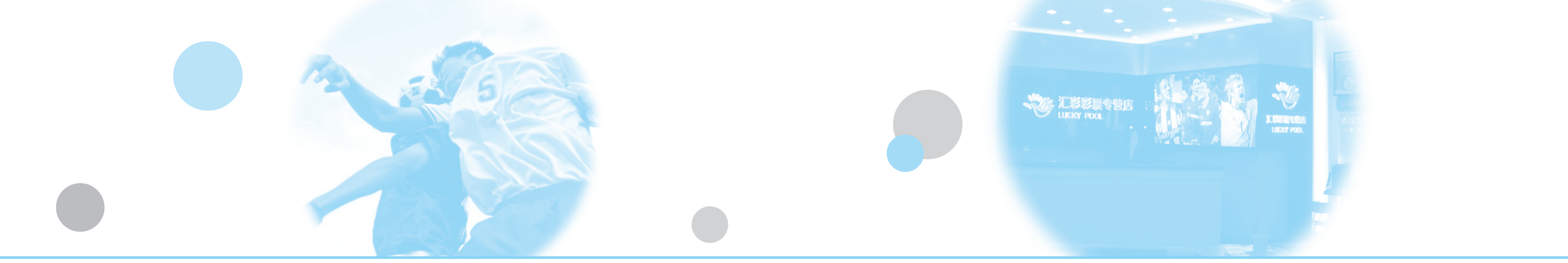
5. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

Refreshment of general mandate to issue shares

(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;

NOTICE OF ANNUAL GENERAL MEETING

(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)."

Refreshment of the general mandate to repurchase shares

(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.”

Extension of (1) to number of shares repurchased

(3) “**THAT** conditional upon the passing of resolution nos. 5(1) and 5(2) of the notice convening this meeting, 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).”

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

Hong Kong, 26 March 2008

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Notes:–

1. A Shareholder 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 Shareholder 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 Shareholder 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. 5(2) 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 2007 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 Shareholders present in person or in the case of a Shareholder 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 Shareholder of Shareholders present in person or in the case of a Shareholder 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 Shareholders having the right to vote at the meeting; or

   (d) by a Shareholder or Shareholders present in person or in the case of a Shareholder 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 Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Shareholder.

NOTICE OF ANNUAL GENERAL MEETING

5. The biographical details on Mr. Chan Sek Keung, Ringo are as contained on page 17 of the Annual Report.

   Mr. CHAN Sek Keung, Ringo, aged 48, 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. He is also a member of the Remuneration Committee of the Board.

   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, and a deputy of the Chinese People's Political Consultative Conference (CPPCC) for both cities of Jinan, Shandong Province and of Chengdu, Sichuan Province, China.

   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$990,000.00 with effect from 1 January 2008; (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 of maximum HK$45,000.00 per month with effect from 15 January 2008.

   Mr. Chan's interests in the Shares, within the meaning of Part XV of the SFO as at 31 December 2007 include 18,160,000 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.

   Mr. Chan does not have any relationship with any Directors, senior management or substantial or controlling Shareholders within the meaning or Part XV of SFO.

   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.

NOTICE OF ANNUAL GENERAL MEETING

6. The biographical details on Mr. David Tsoi are as contained on page 18 of the Annual Report.

   Mr. David TSOI, aged 60, is an independent non-executive director of the Company. Mr. Tsoi first joined the Company in October 2001. 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. Tsoi has not been a director of any public listed company for the past three years.

   Mr. Tsoi is a Certified Public Accountant by profession, and he is now practising as Director of Alliott, Tsoi CPA Limited. Mr. Tsoi holds an MBA degree from the University of East Asia, Macau, is a Fellow Member of both the Chartered Association of Certified Accountants, the Hong Kong Institute of Certified Public Accounts and an Associate Member of the Association of Certified General Accountants of Canada and the Institute of Chartered Accountants of England & Wales.

   Mr. Tsoi'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$120,000.00. The said fee is determined by reference to his duties, responsibilities and experience. The appointment has been renewed at the increased fee level of HK$144,000.00 for a further two (2) years term commencing from 1 April 2008. Mr. Tsoi has served on both the Audit Committee and the Remuneration Committee of the Board, as chairman, ever since their inception and will remain a member of both committees in the new term.

   Mr. Tsoi's interests in the Shares, within the meaning of Part XV of the SFO as at 31 December 2007 include 326,000 shares beneficially own by him, 750,000 share options granted to him on 12 January 2007 at the exercise price of HK$0.088 per Share. This options granted to Mr. Tsoi will expire, if not exercised, on the respective dates 10 years from the date of grant. Another grant was made to Mr. Tsoi on 7 December 2007 are 200,000 shares options at the exercise price of HK$2.72 per Share. The above options granted to Mr. Tsoi will expire, if not exercised, on the respective dates 2 years from the date of grant.

   Mr. Tsoi does not have any relationship with any Directors, senior management or substantial or controlling Shareholders within the meaning or Part XV of SFO.

   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.