Melco LottVentures Limited
新濠環彩有限公司

(formerly known as Wafer Systems Limited)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

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

As at the date of this announcement, the Board consists of 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 announcement, 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 announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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 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 verticles, 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.

• 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.

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 Rich"). 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 Rich, 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.

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 management services.

The segmental information shown in Note 4 to the financial statements is reproduced below with some minor re-arrangements:

	Year ended 31-Dec-07 *HK$'000*	Year ended 31-Dec-06 *HK$'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

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	Year ended 31-Dec-2006
	HK$'000	*HK$'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.

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$23.8million). 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).

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 4 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.

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 Rich International Ltd. 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.

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.

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.

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.

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.

AUDITED CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

The Board announces the audited consolidated results of the Group for the year ended 31 December 2007 together with the comparative audited consolidated results for 2006 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	3	**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		**(24,470)**	(20,575)
Depreciation and amortisation		**(7,331)**	(4,647)
Impairment loss on goodwill		**(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	5	**(7,460)**	(4,104)
(Loss)/profit before taxation	6	**(414,705)**	6,057
Income tax expenses	7	**(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	8	**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	9	**32,051**	2,032
Goodwill		**485,026**	–
Intangible assets		**194,711**	7,753
Interests in jointly controlled entities		**97,633**	–
Loan receivable		**396**	–
		809,817	9,785
Current assets			
Inventories		**12,057**	5,602
Trade and other receivables	10	**159,861**	133,065
Amount due from a jointly controlled entity		**1,431**	–
Amount due from a shareholder of a jointly controlled entity		**30,348**	–
Pledged bank deposits		**12,424**	5,013
Cash and cash equivalents		**143,816**	47,276
		359,937	190,956
Current liabilities			
Trade and other payables	11	**81,774**	54,721
Tax payable		**2,163**	1,548
Amount due to a jointly controlled entity		**2,140**	–
Bank borrowings	12	**45,712**	49,843
Other loans	13	**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
Non-current liabilities			
Other loans	13	**5,600**	5,573
Convertible bonds		**380,030**	–
		385,630	5,573
Net assets		**620,770**	65,213
Capital and reserves			
Share capital	14	**4,322**	2,900
Reserves		**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

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	720	172,800	–	–	–	–	–	–	173,520	–	173,520
Minority interests arising from acquisition of interests in subsidiaries	–	–	–	–	–	–	–	–	–	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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

(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.

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.

2. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied, for the first time, the following new HKFRSs issued by the 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.

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. 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

4. 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

	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

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

5. 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

6. (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)

7. 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	1,676	956
Deferred taxation		
Origination and reversal of temporary differences	–	–
	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.

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)

8. (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.

9. 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	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

10. TRADE AND OTHER RECEIVABLES

		The Group	
		2007	2006
	Notes	***HK$'000***	*HK$'000*
Trade receivables	*(a), (b)*	**102,441**	113,079
Retention money receivables	*(c)*	**11,596**	10,696
Other receivables		**30,020**	7,458
Prepaid maintenance charges	*(d)*	**17**	1,832
Prepayment and deposits		**15,787**	–
		159,861	133,065

Notes:

a) 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.

b) 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.

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.

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

d) 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 Company's normal operating cycle.

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

11. TRADE AND OTHER PAYABLES

		The Group	
		2007	2006
	Notes	***HK$'000***	*HK$'000*
Trade payables	*(a)*	**33,097**	43,480
Other payables		**48,677**	11,241
		81,774	54,721

a) 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

12. 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.

13. 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.

14. 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 Development Limited and Oasis Rich International Limited. 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.

15. 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.

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

By Order of the Board
Melco LottVentures Limited
Chan Sek Keung, Ringo
Chairman and Chief Executive Officer

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication and on the Company's website at www.wafersystems.com.