

Melco LottVentures Limited

formerly known as Wafer Systems Limited

(incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2008



A Hong Kong listed company with stock code : 8198
www.melcolottventures.com.hk

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

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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, Mr. 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 (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.

TO OUR SHAREHOLDERS

The board of Directors (the “Board”) hereby report the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 31 March 2008 (the “Review Period”) together with the comparative unaudited figures for the corresponding period in 2007.

BUSINESS OVERVIEW AND REVIEW

For the period under review, the Group was engaged in two main business streams, namely (i) network system integration (“SI Business”) and (ii) lottery business management services (“Lottery Management Business”), which commenced in December 2007 after the completion of the very substantial acquisition (“VSA”) as detailed in the announcement of the Company dated 21 October 2007 (the “Announcement”) and the circular to shareholders of the Company dated 19 November 2007 (the “Circular”). As a result, certain comparative figures for the Lottery Management Business are not applicable in this first quarterly report.

Total turnover of the Group during the Review Period amounted to approximately HK\$82.3 million (2007: HK\$50.5 million) out of which HK\$67.7 million (2007: HK\$50.5 million) were from SI Business while HK\$14.6 million (2007: Not applicable) were from Lottery Management Business.

Consolidated loss attributable to equity holders of the Company amounted to approximately HK\$28.7 million for the Review Period (2007: HK\$1.0 million loss), after charging the following recurring and non-cash items resulting from the VSA for the Review Period:—

- (i) A deemed expense on convertible bonds amounting to HK\$9.7 million;
- (ii) An amortisation expense on intangible assets in fair value of HK\$13.0 million.

Excluding (i) and (ii) above and other non-cash items, consolidated cash loss attributable to equity holders of the Company during the Review Period amounted to approximately HK\$6.7 million, while there was total cash of approximately HK\$105.8 million at the end of the Review Period.

For details of the VSA, please refer to the Announcement and the Circular of the Company. The VSA was approved by the shareholders at the extraordinary general meeting held on 5 December 2007 and was completed on 13 December 2007.

NETWORK SYSTEM INTEGRATION BUSINESS

In spite of the traditionally slow season of the year, SI Business for the Group performed reasonable well during the Review Period. With a 33.8% increase in turnover, operating profits increased to approximately HK\$1.05 million (2007: HK\$0.30 million).

Competition in the market place will continue to be keen for the SI Business of the Group. However, with the strong business connections with customers in all the four major telecommunications service providers, multinational corporations and large enterprises, the Group has the necessary edge in securing contracts in the provision of higher value added professional services.

LOTTERY BUSINESS MANAGEMENT SERVICES

For the Lottery Business, the Review Period has seen the Group strengthening its developmental efforts on its various lottery management services on mainland China. It has also seen the commencement of manufacturing of lottery terminals in its factory in the Pudong area in Shanghai.

2008 presented the Chinese lottery industry with a big challenge during the Review Period. The snowstorms that severely affected several parts of China had an adverse effect on the sales of both sports and welfare lottery affecting all service providers to these lotteries. The Group was no exception, as player turnout and consequent revenues were negatively affected. During the Review Period, the Group focused efforts to develop and underpin the infrastructure to meet with the Group's coming business development. As a result an operating loss of HK\$12.5 million, excluding approximately HK\$13.0 million of non-cash expense items, was recorded for this business stream during the Review Period.

The management has initiated an operational review of the "Lucky Pool" chain which is currently one of the largest lottery sales networks in China, and fine tuned its plans to further extend the reach of this network. In addition, efforts are underway to identify and acquire prime locations for locating outlets and maximising revenues in a cost effective manner. Furthermore, based on market information, the Group expects the lottery authorities in China to announce new products and services for the lottery playing public and is gearing up in anticipation of the same. The Group expects a higher degree of interest and activity in the China lottery sector in the coming months in a run up to the 2008 Beijing Olympics.

With regard to international markets, the Group took its first step in early March 2008. The proposed acquisition of KTeMS Korea, which owns 14% equity interest in Nanum Lotto Co. Ltd., an exclusively licensed consortium that operates South Korea's off-line lotto games, received shareholders assent in an Extra-ordinary General Meeting held on 15 April 2008. Detailed due diligence is in progress, and the transaction is scheduled for completion before end of September 2008.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Review Period. (2007: Nil).

FINANCIAL INFORMATION

UNAUDITED CONSOLIDATED FINANCIAL RESULTS

		For the three months ended 31 March	
		2008	2007
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	82,329	50,552
Cost of sales and services		(60,377)	(36,059)
Gross profit		21,952	14,493
Other income		607	31
Employee benefits costs		(11,813)	(5,566)
Depreciation and amortisation		(14,637)	(1,077)
Share of profits of jointly controlled entities		372	–
Other expenses		(20,151)	(7,637)
Finance costs	3	(11,076)	(1,202)
Loss before taxation	4	(34,746)	(958)
Taxation	5	–	–
Loss for the period		(34,746)	(958)
Attributable to:			
Equity holders of the Company		(28,722)	(958)
Minority interests		(6,024)	–
		(34,746)	(958)
Loss per share			
– Basic (cents)	6	(6.62)	(0.33)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS

(1) BASIS OF PRESENTATION

The unaudited consolidated financial results have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies adopted in preparing the unaudited consolidated financial report were in consistent with those applied for the annual financial report for the year ended 31 December 2007.

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

(2) TURNOVER

An analysis of the Group’s turnover recognised for the three months ended 31 March 2008 together with the comparative figures for the corresponding period in 2007 are as follows:

	(Unaudited)	
	For the three months	
	ended 31 March	
	2008	2007
	HK\$'000	HK\$'000
Network system integration	67,731	50,552
Lottery business management services	14,598	–
Total	82,329	50,552

(3) FINANCE COSTS

	(Unaudited) For the three months ended 31 March	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on bank borrowings	941	670
Interest expenses on other loans	451	532
Effective interest expenses on convertible bonds	9,684	–
	<u>11,076</u>	<u>1,202</u>

(4) LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	(Unaudited) For the three months ended 31 March	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amortisation of intangible assets	13,019	650
Depreciation of property, plant and equipment	1,618	427
Employee expenses (including Directors' remuneration)	11,813	5,566
and after crediting:		
Bank interest income	607	31

(5) TAXATION

No provision for Hong Kong profits tax has been made, as the Group had no assessable profit for the three months ended 31 March 2008 and its corresponding period in 2007.

PRC income tax has not been provided for the Review Period and its corresponding period in 2007 as the Company's PRC subsidiaries had no assessable profit or were within their tax exemption period.

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 "Implementation Regulations"). The New Law and Implementation Regulations have changed 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.

(6) LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2008 is based on the unaudited loss attributable to equity holders of the Company of approximately HK\$28,722,000 (2007: HK\$958,000) and on the weighted average number of approximately 433,969,000 ordinary shares (2007: approximately 289,945,000) in issue during the period.

Diluted loss per share has not been presented for the three months ended 31 March 2008 since the effect is anti-dilutive.

(7) RESERVES

Movements of reserves during the Review Period are as follows:--

	Share capital	Share premium	Share-based payments reserve	Share-based surplus reserves fund	Enterprise expansion fund	Convertible bonds equity reserve	Exchange reserve	Retained profits/(Accumulated losses)	Attributable to equity holders of the Company	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2007	2,900	55,824	643	1,505	502	-	1,196	2,643	65,213	-	65,213
Recognition of equity settled share-based payments	-	-	28	-	-	-	-	-	28	-	28
Exchange difference on translation of foreign operations	-	-	-	-	-	-	834	-	834	-	834
Loss for the three months ended 31 March 2007	-	-	-	-	-	-	-	(958)	(958)	-	(958)
As at 31 March 2007	2,900	55,824	671	1,505	502	-	2,030	1,685	65,117	-	65,117
As at 1 January 2008	4,322	334,020	359	1,505	502	611,692	4,483	(412,805)	544,078	76,692	620,770
Recognition of equity settled share-based payments	-	-	1,186	-	-	-	-	-	1,186	-	1,186
Exercise of share options, net of expenses	33	820	(92)	-	-	-	-	-	761	-	761
Exchange difference on translation of foreign operations	-	-	-	-	-	-	1,972	-	1,972	-	1,972
Loss for the three months ended 31 March 2008	-	-	-	-	-	-	-	(28,722)	(28,722)	(6,024)	(34,746)
Minority interests arising from acquisition of interests in subsidiaries	-	-	-	-	-	-	-	-	-	527	527
As at 31 March 2008	4,355	334,840	1,453	1,505	502	611,692	6,455	(441,527)	519,275	71,195	590,470

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

SHARE OPTION SCHEMES

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


No options granted pursuant to either the Pre-IPO Share Option Scheme or the Post-IPO Share Option Scheme were cancelled during the Review Period.

Details of the movements in the number of share options during the Review Period for both schemes are as follows:

(A) PRE-IPO SHARE OPTION SCHEME

One single grant of 11,913,000 shares in aggregate was made to various participants on 30 April 2002 under this scheme. As at 31 March 2008, options comprising an aggregate of 3,000,000 shares were outstanding, as detailed below:

	Exercise price per share	Number of share options			Outstanding as at 31.3.2008
		Outstanding as at 1.1.2008	Exercised during Review Period	Lapsed during Review Period	
	HK\$				
Type of participants:					
Directors	0.55	3,000,000	–	–	3,000,000
Advisor	0.55	750,000	750,000	–	–
Employees	0.55	187,000	187,000	–	–
		<u>3,937,000</u>	<u>937,000</u>	<u>–</u>	<u>3,000,000</u>



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

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

(B) POST-IPO SHARE OPTION SCHEMES

There have been a total of 8 lots of Post-IPO share options granted. The lots were (1) 5,277,000 shares on 12 July 2002; (2) 7,859,000 shares on 20 February 2003; (3) 385,000 shares on 10 October 2003; (4) 2,844,000 shares on 23 February 2004; (5) 828,000 shares on 11 October 2004; (6) 6,980,000 shares on 12 January 2007; (7) 4,818,000 shares on 7 December 2007 and (8) 30,000,000 shares on 31 March 2008.

A summary of the Post-IPO Share Option Scheme movements during the Review Period are as follows:

Date of grant	Type of participants	Exercisable period	Exercise price per share	Number of share options				
				Outstanding as at 1.1.2008	Granted during Review Period	Exercised during Review Period	Lapsed during Review Period	Outstanding as at 31.3.2008
			HK\$				(Note 1)	
12.7.2002 (Note 2)	Employees	12.7.2003 to 11.7.2012	0.384	16,000	-	16,000	-	-
20.2.2003 (Note 2)	Directors	20.2.2004 to 19.2.2013	0.138	1,200,000	-	-	-	1,200,000
	Advisors	20.2.2004 to 19.2.2013	0.138	300,000	-	300,000	-	-
	Employees	20.2.2004 to 19.2.2013	0.138	25,000	-	25,000	-	-
				1,525,000	-	325,000	-	1,200,000
10.10.2003 (Note 2)	Employees	10.10.2004 to 9.10.2013	0.142	-	-	-	-	-
23.2.2004 (Note 2)	Employees	23.2.2005 to 22.2.2014	0.165	402,500	-	301,000	-	101,500
11.10.2004 (Note 2)	Employees	11.10.2005 to 10.10.2014	0.124	112,750	-	7,000	-	105,750
12.1.2007 (Note 2)	Directors	12.1.2008 to 11.1.2017	0.088	750,000	-	187,500 (Note 5)	-	562,500
	Employees	12.1.2008 to 11.1.2017	0.088	6,230,000	-	1,507,000	200,000	4,523,000
				6,980,000	-	1,694,500	200,000	5,085,500
7.12.2007 (Note 3)	Directors	7.6.2008 to 6.12.2009	2.720	1,150,000	-	-	-	1,150,000
	Employees	7.6.2008 to 6.12.2009	2.720	3,668,000	-	-	8,000	3,660,000
				4,818,000	-	-	8,000	4,810,000
31.3.2008 (Note 4)	Directors	1.10.2008 to 31.3.2018	0.890	-	4,354,000 (Note 6)	-	-	4,354,000
	Advisors	1.10.2008 to 31.3.2018	0.890	-	17,906,000	-	-	17,906,000
	Employees	1.10.2008 to 31.3.2018	0.890	-	7,740,000	-	-	7,740,000
				-	30,000,000	-	-	30,000,000
	Total:			13,854,250	30,000,000	2,343,500	208,000	41,302,750

Notes:-

- (1) These options lapsed according to the rules of this scheme due to the employees having left the Group.
- (2) These grants under the Post-IPO Share Option Scheme are exercisable starting from the first anniversary of the date of grant at stepped annual increment of 25% of the total options granted, for a period not later than 10 years from the date of grant.
- (3) These grants under the Post-IPO Share Option Scheme are exercisable starting from six months of the date of grant at stepped six-months increment of 50% of the total options granted, for a period not later than 2 years from the date of grant.
- (4) These grants under the Post-IPO Share Option Scheme are exercisable starting from six months of the date of grant at stepped six-months increment of 50% of the total options granted, for a period not later than 10 years from the date of grant.
- (5) Mr. David Tsoi exercised 187,500 share options on 16 January 2008 in respect of the 750,000 options granted to him on 12 January 2007.
- (6) These share options were granted to Mr. Henry Ko, executive Director.

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

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

As at 31 March 2008, the interests and short positions of the Directors, the chief executive of the Company and their respective associates (as defined in the GEM Listing Rules) in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Exchange pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(A) LONG POSITIONS IN SHARES IN THE COMPANY:

<u>Name of Director</u>	<u>Nature of interests</u>	<u>Number of Shares interested</u>	<u>Approximate percentage of Shares interested</u>
Mr. Chan Sek Keung, Ringo	Personal	18,532,000	4.26%
	Corporate (<i>Note 2</i>)	56,400,000	12.95%
Mr. David Tsoi	Personal	413,500	0.09%
Mr. Pang Hing Chung, Alfred	Personal	1,500,000	0.34%

Notes:


- (1) As at 31 March 2008, the total number of issued shares of the Company was 435,478,995.
- (2) Mr. Chan Sek Keung, Ringo is deemed, by virtue of the SFO, to be interested in the 56,400,000 Shares held by Woodstock Management Limited, a company wholly-owned by him.

**(B) LONG POSITIONS IN THE UNDERLYING SHARES IN THE COMPANY
(DIRECTORS' RIGHTS TO ACQUIRE SHARES)**

Name of Director	Date of grant	Number of	Number of	Number of	Number of	Aggregate interests	Approximate percentage of the Company's issued share capital
		unlisted pre-IPO share option outstanding as at 1.1.2008	unlisted pre-IPO share option outstanding as at 31.3.2008	unlisted post-IPO share option outstanding as at 1.1.2008	unlisted post-IPO share option outstanding as at 31.3.2008		
Mr. Chan Sek Keung, Ringo	30.4.2002	3,000,000	3,000,000	-	-	4,200,000	0.96%
	20.2.2003	-	-	1,200,000	1,200,000		
Mr. Ko Chun Fung, Henry	31.3.2008	-	-	-	4,354,000	4,354,000	1.00%
Mr. David Tsoi	12.1.2007	-	-	750,000	562,500 (Note 3)	762,500	0.18%
	7.12.2007	-	-	200,000	200,000		
Mr. Pang Hing Chung, Alfred	7.12.2007	-	-	200,000	200,000	200,000	0.05%
Mr. So Lie Mo, Raymond	7.12.2007	-	-	750,000	750,000	750,000	0.17%

Notes:

- (1) Each of the above Directors is the personal beneficial owner of the share options granted to him.
- (2) Each of the Directors' interests represent his respective long positions in the underlying shares in the Company by virtue of options granted to the Directors pursuant to the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme both adopted by the Company on 20 April 2002 (further details are set out under the section headed "Share Option Schemes").

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- (3) Mr. David Tsoi exercised 187,500 share options on 16 January 2008 in respect of the 750,000 options granted to him on 12 January 2007.
 - (4) Options granted on 30 April 2002 were exercisable during the period from 17 November 2002 to 29 April 2012 at the exercise price of \$0.55 per share.
 - (5) Options granted on 20 February 2003 were exercisable during the period from 20 February 2004 to 19 February 2013 at the exercise price of \$0.138 per share.
 - (6) Options granted on 12 January 2007 were exercisable during the period from 12 January 2008 to 11 January 2017 at the exercise price of \$0.088 per share.
 - (7) Options granted on 7 December 2007 were exercisable during the period from 7 June 2008 to 6 December 2009 at the exercise price of \$2.72 per share.
 - (8) Options granted on 31 March 2008 were exercisable during the period from 1 October 2008 to 31 March 2018 at the exercise price of \$0.89 per share.

Other than as disclosed above, none of the Directors, the chief executive of the Company and their respective associates (as defined in the GEM Listing Rules), had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 March 2008.

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


As at 31 March 2008, the following persons or corporations, in addition to the Directors, stated under the section headed "Directors' and chief executive's interests or short position in shares and underlying shares of the Company", were interested in shares or underlying shares representing 5% or more in the issued share capital of the Company as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO.

LONG POSITIONS IN SHARES IN THE COMPANY

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Number of Shares interested</u>	<u>Number of underlying Shares interested</u>	<u>Approximate shareholding percentage</u>
Power Way Group Limited ("Power Way")	Beneficial owner	72,000,000	713,882,352 (Note 6)	180.46%
Melco LottVentures Holdings Limited	Interest through a controlled corporation	72,000,000 (Note 2)	713,882,352 (Note 6)	180.46%
Melco Leisure and Entertainment Group Limited ("Melco Leisure")	Interest through controlled corporations	72,000,000 (Note 3)	713,882,352 (Note 6)	180.46%
Melco International Development Limited ("Melco")	Interest through controlled corporations	72,000,000 (Note 4)	713,882,352 (Note 6)	180.46%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho")	Interest through controlled corporations	72,000,000 (Note 5)	713,882,352 (Note 6)	180.46%
	Beneficial owner		4,354,000 (Note 7)	1.00%
Mr. Ng Lai Yick (Note 8)	Beneficial owner	3,134,744	–	0.72%
	Interest through a controlled corporation	36,900,000	–	8.47%
North 22 Nominees Limited (Note 8)	Beneficial owner	36,900,000	–	8.47%
Enso Capital Management LLC ("Enso") (Note 9)	Interest through a controlled corporation	39,164,000	–	8.99%
Enso Global Equities Master Partnership LP (Note 9)	Beneficial owner	23,603,110	–	5.42%
Legg Mason Inc	Interest through controlled corporations	30,000,000	–	6.89%

Notes:

- (1) As at 31 March 2008, the total number of issued shares of the Company was 435,478,995.
- (2) Melco LottVentures Holdings Limited is deemed to be interested in the 72,000,000 Shares by virtue of its controlling interests in Power Way.
- (3) 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 Holdings Limited.
- (4) 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.
- (5) 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.
- (6) 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 for the acquisition of the entire issued share capital of Precious Success Holdings Limited and 60% of the entire issued share capital of Oasis Rich International Limited under the agreement dated 8 October 2007 entered into among the Company, Rising Move International Limited (a wholly-owned subsidiary of the Company), Power Way, LottVision Limited, Melco International Development Limited and Firich Enterprises Co., Ltd. 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 Takeovers 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 Takeovers 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.
- (7) Mr. Ho is an advisor of the Company and the Group without receiving any compensation. He was granted the share options in recognition of his contributions in the past and for the future for the benefits of the Company and the Group.
- (8) 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.
- (9) 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 March 2008.

COMPETITION AND CONFLICT OF INTERESTS

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

AUDIT COMMITTEE

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

The present Audit Committee consists of three independent non-executive directors, namely, Mr. David Tsoi, Chairman, Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond.

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

By Order of the Board of
Melco LottVentures Limited
CHAN Sek Keung, Ringo
Chairman

Hong Kong, 13 May 2008