

Melco LottVentures Limited

(incorporated in the Cayman Islands with limited liability)



INTERIM REPORT 20

08



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

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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”) of Melco LottVentures Limited (the “Company”) hereby report the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008 (the “Review Period”) and the comparative unaudited figures for the correspondence period in 2007.

BUSINESS OVERVIEW AND REVIEW

For the Review Period, 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 the Group acquired 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 second quarterly report.

The VSA was approved by the shareholders at the extraordinary general meeting held on 5 December 2007 and was completed on 13 December 2007.

Total turnover of the Group during the Review Period amounted to approximately HK\$235.2 million (2007: HK\$195.2 million), the 20% increase in turnover came mostly from the newly acquired Lottery Management Business since December 2007.

Included in the overheads during the Review Period, there were other expenses totaling approximately HK\$44.5 million (2007: HK\$15.5 million) out of which HK\$24.0 million (2007: HK\$15.5 million) were from SI Business while HK\$20.5 million (2007: Not applicable) were from the newly added Lottery Management Business.

Consolidated loss attributable to equity holders of the Company amounted to approximately HK\$55.6 million for the Review Period (2007: profit HK\$3.7 million), after charging the following recurrent and non-cash items resulting from the VSA for the Review Period:

- (i) A deemed expense on convertible bonds amounting to HK\$18.6 million;
- (ii) An amortisation expense on intangible assets in fair value of HK\$25.9 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\$4.2 million, while there was total cash and cash equivalent on hand of approximately HK\$76.7 million at the end of the Review Period.

Network System Integration Business

The second quarter of the year saw SI Business sales pick up, making up from the traditional slow season in the previous three months. Turnover during the Review Period amounted to approximately HK\$194.0 million (2007: HK\$195.2 million), turning in an operating profit of approximately HK\$8.4 million (2007: HK\$6.1 million).

The reorganisation of the telecommunications industry in China and Beijing's hosting of the 2008 Olympics has created new opportunities. However, competition will continue to be keen for the SI Business segment of the Group. Continued sharpening of the Group's edge in its good professional reputation and strong customer relations will help maintain the position of the Group to withstand the competition and to help capture new opportunities.

Lottery Business Management Services

For the Lottery Business Management Services, the Group has been strengthening its developmental efforts during the Review Period, both in China as well as in other parts of Asia, for its various lottery management services. In addition to higher turnover during the 2nd quarter of 2008, the commencement of lottery terminals manufacturing in the Group's factory in Pudong area in Shanghai has had a good start and reported a full quarter sales and profit contribution during the Review Period.

On a sad note, however, the earthquake in Sichuan Province in China has created yet another challenge to the people of China, the government and businesses following the snowstorms in the first quarter. The combined effects had adversely affected the sales and the services of the Group in the lottery industry. Total turnover for the Lottery Business during the Review Period amounted to approximately HK\$41.2 million (2007: Not applicable), representing an increase of 82.2% in the 2nd quarter over that of the 1st quarter of 2008.

During the Review Period, management has reviewed and fine tuned its plans in the development of sales network in China with the view of maximising sales and to enlarging operational scale benefits.

With regard to international markets, the Group took its first step in early March 2008. The proposed acquisition of KTeMS Company Limited of South 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' approval at an extraordinary general meeting held on 15 April 2008. Detailed due diligence is near completion, and the transaction is scheduled for completion before the end of September 2008. The Group holds high hopes for the market in South Korea and expects such investments will bear lucrative returns.

The Group is very optimistic about the prospects of the China lottery market which, when compared with markets elsewhere in the world, is still at its early developmental stage. It is understood that, as the result of the consultation undertaken by the Chinese lottery authorities, the lottery market in China will be more opened up with new game products and services in a regulated market. In this direction that the Group is consistently seeking opportunities to strengthen its position in the China market so as to reap the benefits of the expected much enlarged market in both the Sports Lottery and Welfare Lottery in China.

INTERIM DIVIDEND

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

CHAN Sek Keung, Ringo

Chairman

Hong Kong, 13 August 2008

MANAGEMENT DISCUSSION & ANALYSIS

Liquidity, Financial Resources and Capital Structure

The Group had total cash and bank deposits of HK\$76.7 million as at 30 June 2008 (31 December 2007: 143.8 million). The Group had no bank overdraft as at 30 June 2008 (31 December 2007: Nil).

During the Review Period, the Group kept its conservative policies in cash and financial management. Surplus funds were placed on interest-bearing deposits with banks. The Group generally financed its operations and serviced its debts with its internal resources, short-term bank loans and other loans.

The Group remained healthy in the financial and liquidity position during the Review Period. As at 30 June 2008, the Group recorded net current assets of approximately HK\$187.1 million as compared with approximately HK\$196.6 million as at 31 December 2007. The current ratio decreased to approximately 1.73 from 2.20 as at 31 December 2007.

Non-current portion of other loan as at 30 June 2008 amounted to approximately HK\$1.0 million (31 December 2007: HK\$5.6 million).

As at 30 June 2008, all assets and liabilities of the Group were denominated in U.S. dollars, Hong Kong dollars and Renminbi.

Acquisitions, Disposals and Significant Investment

The Group had not made any significant acquisitions, disposals or investments during the Review Period.

Segmental Information

The segmental information of the Group is covered in the Financial Review and in note 2 to the unaudited Condensed Consolidated Financial Statements.

Employee Information

As at 30 June 2008, the Group had 361 employees (2007: 167 employees) comprising 31 employees (2007: 20 employees) based in Hong Kong and 330 employees (2007: 147 employees) based in mainland China. The Group continues to provide remuneration packages to employees in accordance with market practices and staff past performance. In addition to basic remuneration, the Group also provides other benefits such as a mandatory provident fund, medical scheme, share option scheme and staff training programs to employees.

Charges on Group Assets

As at 30 June 2008, the Group had a pledged bank deposit of approximately HK\$11.7 million for securing certain banking facilities (31 December 2007: HK\$12.4 million).

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

Gearing Ratio

As at 30 June 2008, the gearing ratio, expressed as total liabilities over total assets, increased to approximately 0.53 from approximately 0.47 as at 31 December 2007.

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.

Order Book & Prospects for New Business

As at 30 June 2008, the Group had contracts on hand for sales amounting to approximately HK\$63.0 million (2007: HK\$38.3 million) which would be booked as revenue upon delivery and implementation. These contracts on hand were all from the SI Business which are mostly of project type of business, and can have different completion cycles from contract signing.

Contingent Liabilities

As at 30 June 2008, the Company has given corporate guarantees totaling approximately HK\$56.5 million (31 December 2007: HK\$77.5 million) to secure various credit facilities granted to its wholly-owned subsidiaries.

Future plans for Investments or Capital Assets and Sources of Funding

As published in the announcement of the Company dated 6 March 2008, the Group had conditionally agreed to acquire, inter alia, the entire issued share capital of KTeMS Company Limited as part of the Company's plan to expand its business geographically within Asia. The proposed acquisition was approved by shareholders of the Company at its extraordinary general meeting held on 15 April 2008. Completion of the acquisition is expected to take place during the third quarter of 2008. Agreement has been reached with Power Way Group Limited, a substantial shareholder of the Company, to make a shareholder's loan of HK\$80 million to the Company for the financing of the project.

Save as disclosed above and the continuous search for expansion, the Group does not have any immediate plan for any significant investments, acquisitions of capital assets or additional sources of funding.

FINANCIAL INFORMATION

Condensed Consolidated Income Statement (Unaudited)

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	2	152,893	144,615	235,222	195,167
Cost of sales and services		(112,514)	(123,766)	(172,891)	(159,825)
Gross profit		40,379	20,849	62,331	35,342
Other income		3,644	56	4,251	87
Employee expense		(21,171)	(5,835)	(32,984)	(11,401)
Depreciation and amortisation		(14,652)	(1,192)	(29,289)	(2,269)
Share of losses of jointly controlled entities		(1,524)	–	(1,152)	–
Other expenses		(24,388)	(7,906)	(44,539)	(15,543)
Finance costs	3	(9,875)	(1,355)	(20,951)	(2,557)
(Loss)/Profit before taxation	4	(27,587)	4,617	(62,333)	3,659
Taxation	5	(1,618)	–	(1,618)	–
(Loss)/Profit for the period		(29,205)	4,617	(63,951)	3,659
(Loss)/Profit attributable to:					
Equity holders of the Company		(26,874)	4,617	(55,596)	3,659
Minority interest		(2,331)	–	(8,355)	–
		(29,205)	4,617	(63,951)	3,659
(Loss) Earnings per share					
– Basic (cents)	6	(6.17)	1.59	(12.79)	1.26
– Diluted (cents)	6	N/A	1.57	N/A	1.25

Condensed Consolidated Balance Sheet (Unaudited)

		(Unaudited) As at 30 June 2008	(Audited) As at 31 December 2007
	Note	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	7	31,114	32,051
Goodwill		485,079	485,026
Intangible assets	8	171,064	194,711
Interest in jointly controlled entities		96,481	97,633
Loan receivable		-	396
		783,738	809,817
Current assets			
Inventories		69,217	12,057
Trade and other receivables	9	231,201	159,861
Amounts due from jointly controlled entities		22,346	1,431
Amount due from a shareholder of a jointly controlled entity		31,263	30,348
Pledged bank deposits		11,731	12,424
Cash and cash equivalents		76,717	143,816
		442,475	359,937
Current liabilities			
Trade and other payables	10	107,441	81,774
Tax payable		2,798	2,163
Amount due to a jointly controlled entity		-	2,140
Amounts due to related companies		59,602	-
Bank borrowings		32,299	45,712
Other loans		53,270	31,565
		255,410	163,354
Net current assets		187,065	196,583
Total assets less current liabilities		970,803	1,006,400
Non-current liabilities			
Other loans		961	5,600
Convertible bonds		398,579	380,030
Net assets		571,263	620,770
Capital and reserves			
Share capital	11	4,355	4,322
Reserves		497,965	539,756
Total equity attributable to equity holders of the Company		502,320	544,078
Minority interest		68,943	76,692
Total equity		571,263	620,770

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Share capital	Share premium	Share-based payments reserve	Statutory surplus reserves fund	Enterprise expansion fund	Convertible bonds equity reserve	Exchange reserve	Retained profits/(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	-	-	89	-	-	-	-	-	89	-	89
Exercise of share options, net of expenses	16	308	(114)	-	-	-	-	-	210	-	210
Exchange difference on translation of foreign operations	-	-	-	-	-	-	834	-	834	-	834
Profit for the six months ended 30 June 2007	-	-	-	-	-	-	-	3,659	3,659	-	3,659
As at 30 June 2007	2,916	56,132	618	1,505	502	-	2,030	6,302	70,005	-	70,005
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	-	-	10,720	-	-	-	-	-	10,720	-	10,720
Exercise of share options, net of expenses	33	820	(92)	-	-	-	-	-	761	-	761
Exchange difference on translation of foreign operations	-	-	-	-	-	-	2,357	-	2,357	79	2,436
Loss for the six months ended 30 June 2008	-	-	-	-	-	-	-	(55,596)	(55,596)	(8,355)	(63,951)
Minority interests arising from acquisition of interests in subsidiaries	-	-	-	-	-	-	-	-	-	527	527
As at 30 June 2008	4,355	334,840	10,987	1,505	502	611,692	6,840	(468,401)	502,320	68,943	571,263

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30 June 2008	Six months ended 30 June 2007
	HK\$'000	<i>HK\$'000</i>
Net cash (used in)/generated from operating activities	(70,376)	1,120
Net cash generated from/(used in) investing activities	224	(2,886)
Net cash generated from/(used in) financing activities	2,012	(11,976)
Net decrease in cash and cash equivalents	(68,140)	(13,742)
Cash and cash equivalents at the beginning of period	143,816	47,276
Effect of foreign exchange rate changes	1,041	–
Cash and cash equivalents at the end of period	76,717	33,534
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents	76,717	33,534

Notes to the Unaudited Condensed Consolidated Financial Statements

(1) BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard No.34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

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

The condensed consolidated financial statements are unaudited but have been reviewed by the audit committee of the Company (the "Audit Committee").

(2) SEGMENT INFORMATION

a. Business segment

An analysis of the Group's turnover and results by business segment is as follow:

	(Unaudited) For the six months ended 30 June 2008				(Unaudited) For the six months ended 30 June 2007		
	Network system integration HK\$'000	Lottery business services HK\$'000	Corporate HK\$'000	Total HK\$'000	Network system integration HK\$'000	Corporate HK\$'000	Total HK\$'000
Turnover	194,032	41,190	-	235,222	195,167	-	195,167
Operating cost*	(183,804)	(52,300)	(14,310)	(250,414)	(186,753)	(16)	(186,769)
Operating profit/(loss) before depreciation and amortisation	10,228	(11,110)	(14,310)	(15,192)	8,414	(16)	8,398
Depreciation and amortisation	(1,795)	(27,494)	-	(29,289)	(2,269)	-	(2,269)
Result	8,433	(38,604)	(14,310)	(44,481)	6,145	(16)	6,129
Other income				4,251			87
Share of losses of jointly controlled entities		(1,152)		(1,152)			-
Finance costs				(20,951)			(2,557)
(Loss)/Profit before taxation				(62,333)			3,659
Taxation				(1,618)			-
(Loss)/Profit for the period				(63,951)			3,659
* Operating cost included the non cash item:							
Share-based payments	1,669	832	8,219	10,720	89	-	89

b. Geographical segment

An analysis of the Group's turnover by geographical location is as follow:

		(Unaudited)	
		For the six months ended 30 June	
		2008	2007
		HK\$'000	HK\$'000
Hong Kong		9,201	9,386
PRC		226,021	185,781
		235,222	195,167

(3) FINANCE COSTS

	For the three months ended 30 June		For the six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expenses on bank borrowings	650	835	1,591	1,409
Interest expenses on other loans	360	520	811	1,148
Effective interest expenses on convertible bonds	8,865	–	18,549	–
	9,875	1,355	20,951	2,557

(4) (LOSS)/PROFIT BEFORE TAXATION

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

	For the three months ended 30 June		For the six months ended 30 June	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Amortisation of intangible assets	12,891	740	25,910	1,390
Depreciation of property, plant and equipment	1,761	452	3,379	879
Staff costs (including directors' remuneration)				
Salary and wages	11,637	5,774	22,264	11,312
Share-based payments	9,534	61	10,720	89

and after crediting:

Bank interest income	237	56	585	87
Other interest income	712	–	971	–
Other services income	2,695	–	2,695	–

(5) TAXATION

No provision for Hong Kong profits tax has been made as the Group had no assessable profit for the six months ended 30 June 2008 and its corresponding period in 2007.

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.

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

(6) (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the three months and the six months ended 30 June 2008 is based on the unaudited loss attributable to equity holders of the Company of approximately HK\$26,874,000 (2007: profit HK\$4,617,000) and approximately HK\$55,596,000 (2007: profit HK\$3,659,000) respectively and on the weighted average number of approximately 434,724,000 (2007: 290,378,000) shares in issue during the period.

Diluted loss per share has not been presented for the three months and six months ended 30 June 2008 since the effect is anti-dilutive.

(7) PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment were:

	Lottery terminals	Machinery and equipment	Furniture, fixtures and office equipment	Motor vehicle	Tools	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost						
At 1 January 2008	10,328	12,680	19,478	1,218	7,275	50,979
Additions	-	1,368	798	-	89	2,255
Exchange differences	420	351	390	20	139	1,320
Disposals	-	(647)	(1,402)	-	-	(2,049)
Acquisition of subsidiary	-	-	1,092	-	-	1,092
At 30 June 2008	10,748	13,752	20,356	1,238	7,503	53,597
Accumulated depreciation						
At 1 January 2008	99	9,629	2,090	864	6,246	18,928
Charged for the period	1,103	754	1,112	110	300	3,379
Exchange differences	50	203	76	16	114	459
Written back on disposals	-	(131)	(152)	-	-	(283)
At 30 June 2008	1,252	10,455	3,126	990	6,660	22,483
Net book value						
At 30 June 2008	9,496	3,297	17,230	248	843	31,114
At 31 December 2007	10,229	3,051	17,388	354	1,029	32,051

(8) INTANGIBLE ASSETS

Movements in intangible assets were:

	Software product development cost	License rights	Technologies know-how	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost				
At 1 January 2008	22,773	164,166	25,252	212,191
Additions	1,729	–	–	1,729
Exchange differences	377	360	–	737
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2008	24,879	164,526	25,252	214,657
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1 January 2008	15,172	2,036	272	17,480
Charged for the period	1,088	21,667	3,155	25,910
Exchange differences	180	23	–	203
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2008	16,440	23,726	3,427	43,593
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 30 June 2008	8,439	140,800	21,825	171,064
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2007	7,601	162,130	24,980	194,711
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(9) TRADE AND OTHER RECEIVABLES

	As at	
	30 June 2008	31 December 2007
	HK\$'000	<i>HK\$'000</i>
Trade receivables	155,334	102,441
Retention money receivables	6,062	11,596
Other receivables	38,690	30,020
Prepaid maintenance charges	–	17
Prepayment and deposits	31,115	15,787
	<hr/>	<hr/>
	231,201	159,861
	<hr/> <hr/>	<hr/> <hr/>

There was no change in the Group's credit policies since 31 December 2005.

The following is an ageing analysis of trade receivables at the balance sheet date:

	As at	
	30 June 2008	31 December 2007
	HK\$'000	<i>HK\$'000</i>
Age		
0 to 90 days	110,577	50,983
91 to 180 days	24,471	24,067
181 to 365 days	18,302	20,409
over 365 days	13,719	17,544
	167,069	113,003
Less: Accumulated impairment	(11,735)	(10,562)
	155,334	102,441

(10) TRADE AND OTHER PAYABLES

	As at	
	30 June 2008	31 December 2007
	HK\$'000	<i>HK\$'000</i>
Trade payables	62,220	33,097
Other payables	45,221	48,677
	107,441	81,774

The following is an ageing analysis of trade payables at the balance sheet date:

	As at	
	30 June 2008	31 December 2007
	HK\$'000	<i>HK\$'000</i>
Age		
0 to 90 days	59,244	28,979
91 to 180 days	1,224	1,404
over 180 days	1,752	2,714
	62,220	33,097

(11) SHARE CAPITAL

	Number of shares	Nominal value
	<i>'000</i>	<i>HK\$'000</i>
Authorised		
– ordinary shares of HK\$0.01 each		
– at 1 January 2008 and 30 June 2008	2,000,000	20,000
	<u>2,000,000</u>	<u>20,000</u>
Issued and fully paid		
– at 1 January 2008	432,198	4,322
– Exercise of share options	3,281	33
	<u>435,479</u>	<u>4,355</u>
– at 30 June 2008	435,479	4,355
	<u>435,479</u>	<u>4,355</u>

(12) SHARE-BASED PAYMENTS

The Group has two share option schemes for certain directors, advisors and employees. They are the Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme and are described below:

	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
Exercise Price	HK\$0.55 per share, which was the same as the placing price per share at the time of IPO	Average closing price of 5 trading days immediately prior to the date of grant
Vesting Period	One-half to three years	One-half to four years
Contractual Life	10 years from date of grant	2 to 10 years from date of grant
Lapse	After 3 months from the departure of grantees from the Group	After 3 months from the departure of grantees from the Group

Details of the share option outstanding during the Review Period are as follows:

	2008		2007	
	Number of share options '000	Weighted average exercise price HK\$	Number of share options '000	Weighted average exercise price HK\$
Outstanding at 1 January,	17,791	0.910	18,329	0.354
Granted during the period	30,000	0.890	6,980	0.088
Lapsed during the period	(515)	0.354	(37)	0.245
Exercised during the period	(3,280)	0.233	(1,570)	0.138
	<u>43,996</u>	<u>0.953</u>	<u>23,702</u>	0.290
Outstanding at 30 June				
Exercisable at 30 June	<u>6,728</u>	<u>1.237</u>	<u>16,186</u>	0.382

Options granted during the six months ended 30 June 2008 were 30,000,000 shares (2007: 6,980,000 shares).

(13) OPERATING LEASE COMMITMENTS

a. Operating lease commitments

As at 30 June 2008, the Group had operating lease commitments of approximately HK\$14,314,000 (31 December 2007: HK\$12,088,000), out of which approximately HK\$7,238,000 was payable within 1 year (31 December 2007: HK\$6,093,000).

b. Capital commitments

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

	As at	
	30 June 2008 HK\$'000	31 December 2007 HK\$'000
Capital contribution on		
– investment in a subsidiary	–	2,675
– acquisition of intangible assets	–	1,070
	<u>–</u>	<u>3,745</u>

(14) RELATED PARTY TRANSACTIONS

The following is a summary of significant related transactions carried out in the normal course of the Group's business during the period:

	(Unaudited)	
	Six months ended	
	30 June	
	2008	2007
	HK\$'000	<i>HK\$'000</i>
Sales of goods to jointly controlled entity	23,118	–
Purchases of materials and unfinished parts from related company	59,003	–
Reimbursement of office and administrative expenses to related company	352	–
	<u> </u>	<u> </u>

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 30 June 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 30.6.2008
		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 Scheme

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 30.6.2008
				Outstanding as at 1.1.2008	Granted during Review Period	Exercised during Review Period	Lapsed during Review Period	
			<i>HKS</i>				<i>(Note 1)</i>	
12.7.2002 <i>(Note 2)</i>	Employees	12.7.2003 to 11.7.2012	0.384	16,000	-	16,000	-	-
20.2.2003 <i>(Note 2)</i>	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 <i>(Note 2)</i>	Employees	10.10.2004 to 9.10.2013	0.142	-	-	-	-	-
23.2.2004 <i>(Note 2)</i>	Employees	23.2.2005 to 22.2.2014	0.165	402,500	-	301,000	-	101,500
11.10.2004 <i>(Note 2)</i>	Employees	11.10.2005 to 10.10.2014	0.124	112,750	-	7,000	-	105,750
12.1.2007 <i>(Note 2)</i>	Directors	12.1.2008 to 11.1.2017	0.088	750,000	-	187,500 <i>(Note 5)</i>	-	562,500
	Employees	12.1.2008 to 11.1.2017	0.088	6,230,000	-	1,507,000	462,500	4,260,500
				6,980,000	-	1,694,500	462,500	4,823,000
7.12.2007 <i>(Note 3)</i>	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	-	-	52,000	3,616,000
				4,818,000	-	-	52,000	4,766,000
31.3.2008 <i>(Note 4)</i>	Directors	1.10.2008 to 31.3.2018	0.890	-	4,354,000 <i>(Note 6)</i>	-	-	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	514,500	40,996,250

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 and chief executive officer of the Company.

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

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

As at 30 June 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 to 5.67 of the GEM Listing Rules, were as follows:

(a) Long positions in shares of 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	18,592,000	4.27%
	Corporate (Note 2)	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 30 June 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 30.6.2008	unlisted post-IPO share option outstanding as at 1.1.2008	unlisted post-IPO share option outstanding as at 30.6.2008		
Mr. Chan Sek Keung, Ringo	30.4.2002 20.2.2003	3,000,000 -	3,000,000 -	- 1,200,000	- 1,200,000	4,200,000	0.96%
Mr. Ko Chun Fung, Henry	31.3.2008	-	-	-	4,354,000	4,354,000	1.00%
Mr. David Tsoi	12.1.2007 7.12.2007	- -	- -	750,000 200,000	562,500 200,000 (Note 3)	762,500	0.18%
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").
- (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 HK\$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 HK\$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 HK\$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 HK\$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 HK\$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 30 June 2008.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2008, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

On 17 April 2008, Mr. Ringo Chan, inadvertently and unintentionally, purchased a total of 60,000 shares in the Company in the open market at an average price of HK\$1.012 per share. This action breached the code that a director should not deal in the shares of the Company during the "blackout period", that is within 1 month prior to the date which the Company announces its results. On being reminded of such violation when Mr. Chan filed his disclosure of interest, Mr. Chan reported this mishap to the Stock Exchange on 21 April 2008. The Company has not since heard further from either Mr. Chan or the Stock Exchange on this matter.

Other than disclosed above, having made specific enquiry with all the Directors, the Directors confirmed that they had complied with the required standard of dealings and the code of conducts for directors' securities transactions during the six months ended 30 June 2008.

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

As at 30 June 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 of 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%

Name of shareholder	Capacity	Number of Shares interested	Number of underlying Shares interested	Approximate shareholding percentage
Mr. Ho, Lawrence Yau Lung ("Mr. Ho")	Interest through controlled corporations Beneficial owner	72,000,000 (Note 5)	713,882,352 (Note 6) 4,354,000 (Note 7)	180.46% 1.00%
Mr. Ng Lai Yick (Note 8)	Beneficial owner Interest through a controlled corporation	3,134,744 36,900,000	– –	0.72% 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 30 June 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 30 June 2008.

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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rule 5.34 of the GEM Listing Rules during the Review Period.

CORPORATE GOVERNANCE

Prior to 1 May 2008, the roles of both the chairman and chief executive officer of the Company were carried out by the same individual, Mr. Chan Sek Keung, Ringo. This practice was not in line with paragraph A.2.1 in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules.

With effect from 1 May 2008, after a review into the business and board structure change with the completion of the VSA in late 2007, Mr. Ko Chun Fung, Henry was appointed as Chief Executive Officer in place of Mr. Chan Sek Keung, Ringo, who stepped down from that position but remained Chairman of the Board.

Save as disclosed above, the Company was in compliance with all the provisions of the Code during the Review Period.

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

Hong Kong, 13 August 2008