

# Melco LottVentures Limited

*(incorporated in the Cayman Islands with limited liability)*



THIRD QUARTERLY REPORT 20



A Hong Kong listed company with stock code : 8198  
[www.melcolottventures.com.hk](http://www.melcolottventures.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 three months and nine months ended 30 September 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”).

The VSA was approved by the shareholders at the extraordinary general meeting held on 5 December 2007 and was completed on 13 December 2007. And, as a result, certain comparative figures for the Lottery Management Business are not applicable in this third quarterly report.

Total turnover of the Group during the Review Period amounted to approximately HK\$355.6 million (2007: HK\$279.4 million). The 27% increase in turnover came mostly from the newly acquired Lottery Management Business.

Included in the overheads during the Review Period, there were other expenses totaling approximately HK\$65.3 million (2007: HK\$25.5 million) out of which HK\$34.7 million (2007: HK\$25.5 million) were from SI Business while HK\$30.6 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\$86.2 million for the Review Period (2007: profit HK\$3.9 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\$28.3 million;
- (ii) An amortisation expense on intangible assets in fair value of HK\$39.0 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\$9.6 million, while there was total cash and cash equivalent on hand of approximately HK\$97.4 million at the end of the Review Period.

### **Network System Integration Business**

For the SI Business, total turnover during the Review Period amounted to approximately HK\$298.1 million (2007: HK\$279.4 million), representing a 6.7% increase over the same period in 2007.

Competition for the SI Business in China continued to be keen during the Review Period, and will continue to be so in the foreseeable future. The financial instability which the world is now facing will undoubtedly affect China, and will in turn affect the Group's SI Business. The Group will, however, stay in constant alert and continue to standby ready with its professional technical expertise, strong customer base and supplier confidence to meet any challenges that may be forthcoming.

### **Lottery Business Management Services**

For the Lottery Business Management Services, total turnover during the Review Period amounted to approximately HK\$57.5 million (2007: Not applicable).

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

The China market aside, the third quarter saw the successful completion in acquiring the entire issued share capital of KTeMS Co. Ltd. ("KTeMS") in South Korea. KTeMS now holds 14% in Nanum Lotto Inc., which is a consortium of well respected local and international corporations awarded with the exclusively license right to operate off-line lottery in South Korea. The Group holds high hopes for the market in South Korea and is confident that the investments will bear lucrative returns.

On 7 September 2008, the Company signed an assets transfer agreement with Intralot International Ltd., a wholly owned subsidiary of the Athens-listed Intralot S.A. The Intralot Group is the world's second biggest supplier of integrated gaming and transaction processing systems. Details of the transaction have been published in the Company's announcement made on 28 September 2008. By admitting such a strong partner, the Group's position will be substantially strengthened by the additional world-class technical and commercial know-how in lottery business. Coupled with the Group's strong marketing presence and expertise in China, the Group is optimistic in reaping good results when China opens up further its lottery industry. Arrangements are being made for the deal to be submitted to shareholders approval at an extraordinary general meeting to be held in December 2008.

At the same extraordinary general meeting, shareholders will also be asked to approve the change of the Company name to "MelcoLot Limited" while the Chinese name "新濠環彩有限公司" will remain unchanged. This move, while drawing closer the relationship between the Group and the Intralot group, it also reflects the Group's confidence in the lottery market in China and the Asia-Pacific region and the long term promising prospects in partnering with a world renowned name in the lottery and gaming industry.

## **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, 11 November 2008

## FINANCIAL INFORMATION

### Unaudited Consolidated Financial Results

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Turnover	2	120,353	84,263	355,575	279,430
Cost of sales and services		(92,761)	(65,917)	(265,652)	(225,742)
Gross profit		27,592	18,346	89,923	53,688
Other income		607	167	4,858	254
Employee expense		(14,895)	(5,713)	(47,879)	(17,114)
Depreciation and amortisation		(14,718)	(1,100)	(44,007)	(3,369)
Share of losses of jointly controlled entities		(619)	–	(1,771)	–
Other expenses		(20,721)	(9,940)	(65,260)	(25,483)
Write-off of fixed assets		(424)	–	(424)	–
Finance costs	3	(11,737)	(1,233)	(32,688)	(3,790)
(Loss)/Profit before taxation	4	(34,915)	527	(97,248)	4,186
Taxation	5	(300)	(250)	(1,918)	(250)
<b>(Loss)/Profit for the period</b>		<b>(35,215)</b>	277	<b>(99,166)</b>	3,936
(Loss)/Profit attributable to:					
Equity holders of the Company		(30,611)	277	(86,207)	3,936
Minority interest		(4,604)	–	(12,959)	–
		<b>(35,215)</b>	277	<b>(99,166)</b>	3,936
(Loss)/Earnings per share					
– Basic (cents)	6	<b>(6.95)</b>	0.09	<b>(19.74)</b>	1.35
– Diluted (cents)	6	<b>N/A</b>	0.09	<b>N/A</b>	1.34

## Notes to the Unaudited Consolidated Financial Results

### (1) BASIS OF PRESENTATION

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

The accounting policies adopted in preparing the unaudited consolidated financial results 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) TURNOVER

An analysis of the Group's turnover recognised for the three and nine months ended 30 September 2008 together with the comparative figures for the corresponding period in 2007 are as follows:

	<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>For the nine months</b> <b>ended 30 September</b>	
	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Network system integration	<b>104,075</b>	84,263	<b>298,107</b>	279,430
Lottery business management services	<b>16,278</b>	–	<b>57,468</b>	–
	<b>120,353</b>	84,263	<b>355,575</b>	279,430

**(3) FINANCE COSTS**

	<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>For the nine months</b> <b>ended 30 September</b>	
	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Interest expenses on bank borrowings	<b>425</b>	646	<b>2,016</b>	2,055
Interest expenses on other loans	<b>843</b>	587	<b>1,654</b>	1,735
Interest expenses on shareholder loan	<b>687</b>	–	<b>687</b>	–
Effective interest expenses on convertible bonds	<b>9,782</b>	–	<b>28,331</b>	–
	<b>11,737</b>	1,233	<b>32,688</b>	3,790

**(4) (LOSS)/PROFIT BEFORE TAXATION**

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

	<b>(Unaudited)</b> <b>For the three months</b> <b>ended 30 September</b>		<b>(Unaudited)</b> <b>For the nine months</b> <b>ended 30 September</b>	
	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000	<b>2008</b> <b>HK\$'000</b>	2007 HK\$'000
Amortisation of intangible assets	<b>13,054</b>	740	<b>38,964</b>	2,130
Depreciation of property, plant and equipment	<b>1,664</b>	360	<b>5,043</b>	1,239
Staff costs (including directors' remuneration)				
Salary and wages	<b>10,890</b>	5,684	<b>33,154</b>	16,996
Share based payment	<b>4,005</b>	29	<b>14,725</b>	118

and after crediting:

Bank interest income	<b>87</b>	60	<b>672</b>	147
Other interest income	<b>520</b>	–	<b>1,491</b>	–
Other services income	–	–	<b>2,695</b>	–



**(5) TAXATION**

No provision for Hong Kong profits tax has been made as the Group had no assessable profit for the nine months ended 30 September 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)/profit per share for the three months and the nine months ended 30 September 2008 is based on the unaudited loss attributable to equity holders of the Company of approximately HK\$30,611,000 (2007: profit HK\$277,000) and approximately loss HK\$86,207,000 (2007: profit HK\$3,936,000) respectively and on the weighted average number of approximately 436,674,000 (2007: 293,248,000) shares in issue during the period.

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

## (7) RESERVES

	Share capital	Share premium	Share-based payments reserve	Statutory 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	-	-	118	-	-	-	-	-	118	-	118
Exercise of share options, net of expenses	73	2,210	(351)	-	-	-	-	-	1,932	-	1,932
Exchange difference on translation of foreign operations	-	-	-	-	-	-	1,433	-	1,433	-	1,433
Profit for the nine months ended 30 September 2007	-	-	-	-	-	-	-	3,936	3,936	-	3,936
As at 30 September 2007	2,973	58,034	410	1,505	502	-	2,629	6,579	72,632	-	72,632
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	-	-	14,725	-	-	-	-	-	14,725	-	14,725
Exercise of share options, net of expenses	33	826	(95)	-	-	-	-	-	764	-	764
Exchange difference on translation of foreign operations	-	-	-	-	-	-	7,053	-	7,053	79	7,132
Issue of new shares	357	27,469	-	-	-	-	-	-	27,846	-	27,846
Transaction costs attributable to issue of new shares	-	-	-	-	-	-	-	-	(790)	-	(790)
Discount on acquisition of assets	-	-	-	-	-	-	-	-	22,364	-	22,364
Loss for the nine months ended 30 September 2008	-	-	-	-	-	-	-	(86,207)	(86,207)	(12,959)	(89,166)
Minority interests arising from acquisition of interests in subsidiaries	-	-	-	-	-	-	-	-	-	527	527
As at 30 September 2008	4,712	383,909	14,989	1,505	502	611,692	11,536	(499,012)	529,833	64,339	594,172

**(8) CHANGE IN SHARE CAPITAL**

	<i>Note</i>	<b>Number of shares</b> <i>'000</i>	<b>Nominal value</b> <i>HK\$'000</i>
Authorised			
– Ordinary shares of HK\$0.01 each			
– At 1 January 2008 and 30 September 2008		2,000,000	20,000
Issued and fully paid			
– At 1 January 2008		432,198	4,322
– Shares issued on acquisition of subsidiary	(a)	35,700	357
– Exercise of share options		3,323	33
– At 30 September 2008		471,221	4,712

*Note:*

- (a) On 17 September 2008, the Company issued and allotted 35,700,000 ordinary shares of the Company of HK\$0.01 each at the issue price of HK\$1.42 each as part of the consideration for the acquisition of the entire issued share capital of KTeMS Co., Ltd. These shares rank *pari passu* in all respects with other shares in issue.

## **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 September 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 30.9.2008
		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 1.1.2008	Granted during Review Period	Exercised during Review Period	Lapsed during Review Period	Outstanding as at 30.9.2008
			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
	Advisor	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	-	-
				<b>1,525,000</b>	<b>-</b>	<b>325,000</b>	<b>-</b>	<b>1,200,000</b>
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	-	321,000	-	81,500
11.10.2004 (Note 2)	Employees	11.10.2005 to 10.10.2014	0.124	112,750	-	29,500	1,250	82,000
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	462,500	4,260,500
				<b>6,980,000</b>	<b>-</b>	<b>1,694,500</b>	<b>462,500</b>	<b>4,823,000</b>
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	-	-	188,000	3,480,000
				<b>4,818,000</b>	<b>-</b>	<b>-</b>	<b>188,000</b>	<b>4,630,000</b>
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
				<b>-</b>	<b>30,000,000</b>	<b>-</b>	<b>-</b>	<b>30,000,000</b>
	<b>Total:</b>			<b>13,854,250</b>	<b>30,000,000</b>	<b>2,386,000</b>	<b>651,750</b>	<b>40,816,500</b>

*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 out 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 September 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	18,776,000	3.98%
	Corporate (Note 2)	56,400,000	11.97%
Mr. David Tsoi	Personal	413,500	0.09%
Mr. Pang Hing Chung, Alfred	Personal	1,500,000	0.32%

Notes:

- (1) As at 30 September 2008, the total number of issued shares of the Company was 471,221,495.
- (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)**

<b>Name of Director</b>	<b>Date of grant</b>	<b>Number of unlisted pre-IPO share option outstanding as at 1.1.2008</b>	<b>Number of unlisted pre-IPO share option outstanding as at 30.9.2008</b>	<b>Number of unlisted post-IPO share option outstanding as at 1.1.2008</b>	<b>Number of unlisted post-IPO share option outstanding as at 30.9.2008</b>	<b>Aggregate interests</b>	<b>Approximate percentage of the Company's issued share capital</b>
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	0.89%
Mr. Ko Chun Fung, Henry	31.3.2008	-	-	-	4,354,000	4,354,000	0.92%
Mr. David Tsoi	12.1.2007 7.12.2007	- -	- -	750,000 200,000	562,500 200,000	762,500	0.16%
Mr. Pang Hing Chung, Alfred	7.12.2007	-	-	200,000	200,000	200,000	0.04%
Mr. So Lie Mo, Raymond	7.12.2007	-	-	750,000	750,000	750,000	0.16%

*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) 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.
- (4) 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.
- (5) 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.
- (6) 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.
- (7) 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 September 2008.



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

As at 30 September 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 ("Shares")

<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	–	15.28%
Melco LottVentures Holdings Limited	Beneficial owner	–	419,059,095 (Note 6)	88.93%
	Interest through a controlled corporation	72,000,000 (Note 2)	–	15.28%
Melco Leisure and Entertainment Group Limited ("Melco Leisure")	Interest through controlled corporations	72,000,000 (Note 3)	419,059,095 (Note 3)	104.21%
Melco International Development Limited ("Melco")	Interest through controlled corporations	72,000,000 (Note 4)	419,059,095 (Note 4)	104.21%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho")	Interest through controlled corporations	72,000,000 (Note 5)	419,059,095 (Note 5)	104.21%
	Beneficial owner	–	4,354,000 (Note 7)	0.92%
Intralot International Limited (Note 8)	Beneficial owner	28,208,938 (Note 8)	349,401,622 (Note 8)	80.13%
Intralot S.A. Integrated Lottery Systems and Services ("Intralot S.A.") (Note 8)	Interest through a controlled corporation	28,208,938 (Note 8)	349,401,622 (Note 8)	80.13%

<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>
Global Crossing Holdings Ltd. ("Global Crossing") (Note 9)	Beneficial owner	–	206,104,195 (Note 6)	43.74%
Firich Enterprises Co., Ltd. ("Firich") (Note 9)	Interest through a controlled corporation	–	206,104,195 (Note 6)	43.74%
LottVision Limited	Beneficial owner	–	46,366,121 (Note 6)	9.84%
Mr. Ng Lai Yick (Note 10)	Beneficial owner	3,134,744	–	0.67%
	Interest through a controlled corporation	36,900,000	–	7.83%
North 22 Nominees Limited (Note 10)	Beneficial owner	36,900,000	–	7.83%
Enso Capital Management LLC	Interest through controlled corporations	38,457,914	–	8.16%
Legg Mason, Inc.	Interest through controlled corporations	30,000,000	–	6.37%

## Notes:

- (1) As at 30 September 2008, the total number of issued shares of the Company was 471,221,495.
- (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 and the underlying 419,059,095 Shares from convertible bonds in the Company as described in (6) below 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 and the underlying 419,059,095 Shares from convertible bonds in the Company as described in (6) below 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 and the underlying 419,059,095 Shares from convertible bonds in the Company as described in (6) below by virtue of his controlling interests in Melco, which are held by 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.

These convertible bonds in the principal sum HK\$606,800,000 had been, as at 30 September 2008, distributed to the shareholders of Power Way Group Limited as to Melco LottVentures Holdings Limited HK\$356,200,231, Global Crossing Holdings Ltd. HK\$175,188,566 and LottVision Limited HK\$75,411,203. With LottVision Limited transferring HK\$36,000,000 to three independent third parties. It held the balance of the convertible bonds in the principal amount of HK\$39,411,203.

- (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) Pursuant to an assets transfer agreement signed between the Company and Intralot International Limited on 7 September 2008, the Company has agreed to acquire the Assets at the Consideration of HK\$305,130,367.558, as disclosed in the announcement of the Company on 28 September 2008. The Consideration will be satisfied by the Company by allotting and issuing 28,208,938 Shares and issuing the Convertible Bonds in the principal amount of HK\$277,175,310 which is convertible into 279,692,542 new Shares at the Conversion Price I of HK\$0.991 per Share. In addition, upon obtaining two agreements in connection with the China Sports Lottery Administration ("CSLA") Projects and/or China Welfare Lottery ("CWL") Projects in the PRC, the Company shall pay the Success Payment to the Intralot International Limited. The Success Payment will be satisfied by way of the Convertible Bonds II, which are convertible into 69,709,080 new Shares in the Company at the Conversion Price II of HK\$1.0759. Intralot S.A. is therefore deemed interested in the Shares and underlining Shares held by the Intralot International Limited, a wholly owned subsidiary of Intralot S.A.

- (9) Firich is deemed to be interested in the underlying 206,104,195 Shares from convertible bonds in the Company as described in (6) above by virtue of its controlling interests in its wholly-owned subsidiary, Global Crossing.
- (10) 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.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares or underlying shares in the Company as at 30 September 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, 11 November 2008