

# MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)

# 09

*Interim Report*



新濠環彩

**MelcoLot**

A Hong Kong listed company with stock code : 8198  
[www.melcolot.com](http://www.melcolot.com)

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

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*This report, for which the directors of MelcoLot Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to MelcoLot Limited. The directors of MelcoLot Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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.*

## MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the **"Board"**) of MelcoLot Limited (the **"Company"**) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the **"Group"**) for the six months ended 30 June 2009 (the **"Review Period"**) and the comparative unaudited figures for the correspondence period in 2008.

### Business Review

During the Review Period, the Group continued to be engaged in two main streams of business, namely the network system integration and the lottery business. Total revenue of the Group during the Review Period amounted to HK\$162.9 million (2008: HK\$235.2 million), representing a decrease of 30.7%.

Consolidated loss attributable to owners of the Company amounted to HK\$63.9 million for the Review Period (2008: HK\$55.6 million), after charging the following items:

- (i) A deemed expense on convertible bonds amounting to HK\$32.4 million (2008: HK\$18.5 million); and
- (ii) An amortisation expense on other intangible assets in fair value of HK\$10.3 million (2008: HK\$25.9 million).

Loss before interest, taxes, depreciation and amortisation for the Review Period amounted to HK\$21.2 million (2008: HK\$12.1 million). The underperformance was mainly because of the decrease in revenue under the poor macro economic environment since the fourth quarter of 2008 arising from the financial turmoil.

In response to this, the Group has restructured and streamlined the operations, and imposed tight cost control measures in all applicable areas. For the Review Period, the employee benefits costs amounted to HK\$24.8 million (2008: HK\$33.0 million), a decrease of 24.8%. Other expenses for the Review Period amounted to HK\$31.9 million (2008: HK\$44.5 million), a decrease of 28.3% compared to the correspondence period in 2008.

A tax credit of HK\$2.3 million (2008: tax charge of HK\$1.6 million) for the Review Period was due to the deferred tax credit arising from the amortisation of other intangible assets for the Review Period.

**Dividend**

No interim dividend has been paid or declared by the Company during the six months ended 30 June 2009 (2008: Nil).

**Network System Integration**

Network system integration of the Group represented the provision of network infrastructure solutions including (i) network infrastructure, (ii) professional management services, and (iii) network software. Revenue from this operating segment decreased by 34.2%, and amounted to HK\$127.6 million for the Review Period (2008: HK\$194.0 million) corresponding to 78.3% of the Group's revenue. Owing to the global economic downturn, capital expenditure and upgrading plans about the network system for our customers have been partially cancelled or postponed. This macro economic environment in conjunction with the highly competitive nature of the system integration business have adversely impacted the results in this segment.

**Lottery Business**

Lottery business of the Group represented the venue management, scratch card distribution, and lottery terminal equipment manufacturing and distribution. Revenue from this operating segment for the Review Period amounted to HK\$35.3 million (2008: HK\$41.2 million). The decrease of 14.3% compared to the correspondence period in 2008 was a result of the unfavourable economic environment. The Group has undertaken business process reengineering aiming at improvements by means of elevating efficiency and effectiveness of the Group's investments in China. Consequently the segment operational loss before depreciation and amortisation for the six months ended 30 June 2009 was reduced by 8.1% to HK\$10.2 million (2008: HK\$11.1 million) despite the decline in gross revenue.

**Liquidity, Financial Resources and Capital Structure**

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

The Group had total cash and cash equivalents of HK\$109.6 million as at 30 June 2009 (31 December 2008: HK\$157.0 million). As a measure of liquidity, at 30 June 2009, the Group had net current assets of approximately HK\$174.1 million, a decrease of 13.0% from HK\$200.0 million as at 31 December 2008. The current ratio (ratio of current assets to current liabilities), however, increased to 2.09 at 30 June 2009 (31 December 2008: 1.75) because of the tight controls in inventories, trade receivables, as well as the trade payables.

The total bank and other borrowings also decreased from the balance of HK\$115.4 million at 31 December 2008 to HK\$108.0 million at 30 June 2009, of which HK\$28.0 million (31 December 2008: HK\$35.4 million) was due within 1 year. The gearing ratio, expressed as a percentage of long term borrowings of HK\$80 million over total equity of HK\$124.6 million, was 64.2% at 30 June 2009 (31 December 2008: 42.2%).

At 30 June 2009, the Group had no significant capital commitments contracted but not provided for in the financial statements.

### **Employee Information**

As at 30 June 2009, the Group had 310 employees (31 December 2008: 322 employees). 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 mandatory provident fund, medical scheme, share option scheme and staff training programs to employees.

### **Charges on Group Assets**

As at 30 June 2009, the Group had pledged bank deposits of HK\$15.6 million for securing certain banking facilities (31 December 2008: HK\$15.3 million).

As at 30 June 2009, the Group had charged certain shareholdings in its subsidiaries: (i) 90% of Oasis Rich International Limited and Precious Success Holdings Limited and (ii) 100% of KTeMS Co., Ltd., to ensure the performance of its obligations under the convertible bonds due 2012 and convertible bonds due 2013, respectively.

## **Foreign Exchange Exposure**

During the Review Period, the Group earned revenue and incurred costs and expenses mainly in United States dollars, Hong Kong dollars and Renminbi. As the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

## **Contingent Liabilities**

The Group did not have any significant contingent liabilities at 30 June 2009.

## **Outlook**

Lottery ticket sales in many countries are one of the major sources of funds for building community sports facilities and financing the country's social welfare programs. The lottery market in China has expanded rapidly over the last two decades and the penetration of lottery in China is still regarded as low by global standards. Furthermore, other than the two government operated lotteries (Welfare Lottery and Sports Lottery), all other forms of gambling are illegal. These factors create an encouraging environment for the authorised service providers to develop the lottery market in China. The Group is involved in various lottery industry verticals in China, namely provision of management consultancy services to a leading retail chain of lottery vending outlets, distribution of scratch cards, manufacture and distribution of highly robust and versatile point of sales machines and provision of marketing and technical services. The Group derives its revenue from sharing a certain proportion of the lottery sales turnover or other contractual arrangements as appropriate.

The recent downturn in the economy has inevitably affected the lottery industry. However, the Group is focused upon consolidating its presence in China, actively exploring new business opportunities whether by way of provision of technical services to lottery authorities or participating in new market developments. Together with the strong support from our world-leading strategic shareholders, we believe that the Group is well positioned to steadily expand market share and succeed in the China lottery market.

The Group is also actively exploring lottery opportunities in the Asia Pacific region in order to expand its geographical footprint. Through its local subsidiary, the Group has already participated in the Nanum Lotto international consortium which operates the South Korean Welfare Lottery under exclusive rights from the South Korean Government.

## Condensed Consolidated Income Statement

For the six months ended 30 June 2009

	Notes	Three months ended 30 June		Six months ended 30 June	
		2009	2008	2009	2008
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	<b>66,578</b>	152,893	<b>162,884</b>	235,222
Changes in inventories of finished goods and work-in-progress		<b>20,784</b>	31,333	<b>(32,897)</b>	38,923
Purchases of inventories and raw materials consumed		<b>(74,389)</b>	(143,847)	<b>(95,970)</b>	(211,814)
Other income and gains		<b>61</b>	3,644	<b>2,009</b>	4,251
Employee benefits costs		<b>(11,763)</b>	(21,171)	<b>(24,838)</b>	(32,984)
Depreciation and amortisation		<b>(7,344)</b>	(14,652)	<b>(14,352)</b>	(29,289)
Share of losses of jointly controlled entities		<b>(163)</b>	(1,524)	<b>(515)</b>	(1,152)
Other expenses		<b>(12,899)</b>	(24,388)	<b>(31,881)</b>	(44,539)
Finance costs	4	<b>(17,435)</b>	(9,875)	<b>(36,004)</b>	(20,951)
Loss before taxation	5	<b>(36,570)</b>	(27,587)	<b>(71,564)</b>	(62,333)
Taxation	6	<b>2,860</b>	(1,618)	<b>2,310</b>	(1,618)
Loss for the period		<b>(33,710)</b>	(29,205)	<b>(69,254)</b>	(63,951)
Attributable to:					
Owners of the Company		<b>(30,914)</b>	(26,874)	<b>(63,935)</b>	(55,596)
Non-controlling interests		<b>(2,796)</b>	(2,331)	<b>(5,319)</b>	(8,355)
		<b>(33,710)</b>	(29,205)	<b>(69,254)</b>	(63,951)
Loss per share	8				
– Basic (cents)		<b>(6.18)</b>	(6.17)	<b>(12.78)</b>	(12.79)
– Diluted (cents)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Loss for the period	<b>(69,254)</b>	(63,951)
Other comprehensive income/(loss):		
Exchange differences arising on translation of foreign operations	<b>1,196</b>	2,436
Total comprehensive loss for the period	<b><u>(68,058)</u></b>	<u>(61,515)</u>
Total comprehensive loss attributable to:		
Owners of the Company	<b>(62,739)</b>	(53,239)
Non-controlling interests	<b>(5,319)</b>	(8,276)
	<b><u>(68,058)</u></b>	<u>(61,515)</u>



## Condensed Consolidated Statement of Financial Position

As at 30 June 2009

		<b>As at 30 June 2009</b>	As at 31 December 2008
		<b>(Unaudited) HK\$'000</b>	(Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	<b>28,498</b>	30,809
Goodwill		<b>283,632</b>	283,632
Other intangible assets		<b>112,704</b>	121,121
Interests in jointly controlled entities		<b>11,002</b>	11,519
Available-for-sales investment		<b>133,902</b>	132,502
		<b>569,738</b>	579,583
CURRENT ASSETS			
Inventories		<b>38,269</b>	70,878
Trade and other receivables	10	<b>145,641</b>	174,591
Loan receivable – due within one year		<b>3,890</b>	3,890
Amount due from a jointly controlled entity		<b>20,904</b>	44,458
Amount due from a related company		<b>155</b>	148
Pledged bank deposits		<b>15,635</b>	15,310
Bank balances and cash		<b>109,597</b>	156,967
		<b>334,091</b>	466,242
CURRENT LIABILITIES			
Trade and other payables	11	<b>79,037</b>	213,478
Amount due to a shareholder of a jointly controlled entity		<b>2,334</b>	–
Amount due to a shareholder		<b>3,679</b>	1,695
Amounts due to related companies		<b>35,897</b>	1,098
Tax payable		<b>11,025</b>	14,541
Bank and other borrowings – due within one year		<b>27,971</b>	35,408
		<b>159,943</b>	266,220
NET CURRENT ASSETS		<b>174,148</b>	200,022
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>743,886</b>	779,605

	<b>As at 30 June 2009</b>	As at 31 December 2008
	<b>(Unaudited)</b>	(Audited)
<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>NON CURRENT LIABILITIES</b>		
Other borrowings – due after one year	<b>80,000</b>	80,000
Convertible bonds	<b>533,324</b>	501,331
Deferred tax liabilities	<b>6,009</b>	8,535
	<b>619,333</b>	589,866
<b>NET ASSETS</b>	<b>124,553</b>	189,739
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>5,005</b>	4,994
Reserves	<b>94,643</b>	154,521
Equity attributable to owners of the Company	<b>99,648</b>	159,515
Non-controlling interests	<b>24,905</b>	30,224
<b>TOTAL EQUITY</b>	<b>124,553</b>	189,739

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Share capital	Share premium	Share-based payments reserve	PRC statutory reserves	Convertible bonds equity reserve	Exchange reserve	Accumulated losses	Attributable to owners of the Company	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2008 (audited)	4,322	334,020	359	2,007	611,692	4,483	(472,805)	484,078	56,189	540,267
Loss for the period	-	-	-	-	-	-	(55,596)	(55,596)	(8,355)	(63,951)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	2,357	-	2,357	79	2,436
Total comprehensive income/(loss) for the period	-	-	-	-	-	2,357	(55,596)	(53,239)	(8,276)	(61,515)
Equity-settled share-based payments	-	-	-	-	-	-	-	-	-	-
Exercise of share options	33	820	(92)	-	-	-	-	10,720	-	10,720
Non-controlling interests arising from acquisition of a subsidiary	-	-	-	-	-	-	-	-	527	527
As at 30 June 2008 (unaudited)	4,355	334,840	10,987	2,007	611,692	6,840	(528,401)	442,320	48,440	490,760
As at 1 January 2009 (audited)	4,994	368,540	16,244	5,589	645,492	37,184	(918,528)	159,515	30,224	189,739
Loss for the period	-	-	-	-	-	-	(63,935)	(63,935)	(5,319)	(69,254)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	1,196	-	1,196	-	1,196
Total comprehensive income/(loss) for the period	-	-	-	-	-	1,196	(63,935)	(62,739)	(5,319)	(68,058)
Equity-settled share-based payments	-	-	2,784	-	-	-	-	2,784	-	2,784
Exercise of share options	11	121	(44)	-	-	-	-	88	-	88
As at 30 June 2009 (unaudited)	5,005	368,661	18,984	5,589	645,492	38,380	(982,463)	99,648	24,905	124,553

## Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Net cash used in operating activities		<b>(31,953)</b>	(70,376)
Investing activities			
Interest received		<b>110</b>	1,556
Purchase of property, plant and equipment	9	<b>(1,787)</b>	(2,255)
Proceeds from disposal of property, plant and equipment	9	–	1,059
Capital expenditure on other intangible assets		<b>(1,851)</b>	(1,035)
(Increase)/decrease in pledged bank deposits		<b>(325)</b>	693
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		–	206
Net cash (used in) / generated from investing activities		<b>(3,853)</b>	224
Financing activities			
Repayment of bank and other borrowings		<b>(7,879)</b>	(36,558)
Interest paid		<b>(3,569)</b>	(2,402)
Proceeds from exercise of share options		<b>88</b>	761
Bank and other borrowings raised		–	40,211
Net cash (used in) / generated from financing activities		<b>(11,360)</b>	2,012
Net decrease in cash and cash equivalents		<b>(47,166)</b>	(68,140)
Cash and cash equivalents at beginning of the period		<b>156,967</b>	143,816
Effect of foreign exchange rate changes		<b>(204)</b>	1,041
Cash and cash equivalents at end of the period, represented by bank balances and cash		<b>109,597</b>	76,717

## **Notes to the Condensed Consolidated Financial Statements**

*For the six months ended 30 June 2009*

### **(1) BASIS OF PRESENTATION**

The condensed consolidated financial statements have been prepared in accordance with 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 “**GEM Listing Rules**”) and with Hong Kong Accounting Standard 34 “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants.

### **(2) SIGNIFICANT ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared under the historical cost convention.

A number of new or revised Standards and Interpretations are effective for the financial year beginning on 1 January 2009. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2008.

#### **HKFRS 8 “Operating Segments”**

(effective for annual periods beginning on or after 1 January 2009)

HKFRS 8 is a disclosure Standard that has resulted in a redesignation of the Group’s reportable segments, but has had no impact on the reported results or financial position of the Group.

#### **HKAS 1 (revised 2007) “Presentation of Financial Statements”**

(effective for annual periods beginning on or after 1 January 2009)

HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) has had no impact on the reported results or financial position of the Group.

**(3) SEGMENT INFORMATION**

The following is an analysis of the Group's revenue and results by operating segment of the periods under review:

**For the six months ended 30 June 2009**

	<b>Six months ended 30 June 2009</b>		
	<b>Network system integration</b>	<b>Lottery business</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	127,614	35,270	162,884
Operating cost	(130,422)	(45,443)	(175,865)
Operating loss before depreciation and amortisation	(2,808)	(10,173)	(12,981)
Depreciation and amortisation	(1,409)	(12,943)	(14,352)
Result	(4,217)	(23,116)	(27,333)
Unallocated corporate income			2,009
Unallocated corporate expenses			(9,721)
Share of losses of jointly controlled entities		(515)	(515)
Finance costs			(36,004)
Loss before taxation			(71,564)
Taxation			2,310
Loss for the period			(69,254)

**For the six months ended 30 June 2008**

	<b>Six months ended 30 June 2008</b>		
	<b>Network system integration</b>	<b>Lottery business</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	194,032	41,190	235,222
Operating cost	(183,804)	(52,300)	(236,104)
Operating loss before depreciation and amortisation	10,228	(11,110)	(882)
Depreciation and amortisation	(1,795)	(27,494)	(29,289)
Result	8,433	(38,604)	(30,171)
Unallocated corporate income			4,251
Unallocated corporate expenses			(14,310)
Share of losses of jointly controlled entities		(1,152)	(1,152)
Finance costs			(20,951)
Loss before taxation			(62,333)
Taxation			(1,618)
Loss for the period			(63,951)

**(4) FINANCE COSTS**

	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on bank borrowings	<b>242</b>	650	<b>430</b>	1,591
Interest expenses on other loans	<b>1,323</b>	360	<b>3,139</b>	811
Effective interest expenses on convertible bonds	<b>15,870</b>	8,865	<b>32,435</b>	18,549
	<b>17,435</b>	9,875	<b>36,004</b>	20,951

**(5) LOSS BEFORE TAXATION**

Loss before taxation has been arrived at after charging:

	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Amortisation of other intangible assets	<b>5,133</b>	12,891	<b>10,270</b>	25,910
Depreciation of property, plant and equipment	<b>2,211</b>	1,761	<b>4,082</b>	3,379
Staff costs (including directors' remuneration)				
Salaries and other benefits	<b>11,083</b>	11,637	<b>22,054</b>	22,264
Share-based payments	<b>680</b>	9,534	<b>2,784</b>	10,720

and after crediting:

Interest income	<b>57</b>	949	<b>110</b>	1,556
Other services income	–	2,695	<b>1,397</b>	2,695
Net foreign exchange gain	<b>4</b>	–	<b>502</b>	–

**(6) TAXATION**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Current period:		
Enterprise Income Tax of the People's Republic of China	<b>216</b>	1,618
Deferred taxation	<b>(2,526)</b>	–
Tax (credit)/charge	<b>(2,310)</b>	1,618

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the six months ended 30 June 2009 and its corresponding period in 2008.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.



**(7) DIVIDEND**

No interim dividend has been paid or declared by the Company during the six months ended 30 June 2009 (2008: Nil).

**(8) LOSS PER SHARE**

The calculation of basic loss per share for the three months and the six months ended 30 June 2009 is based on the unaudited loss attributable to owners of the Company of approximately HK\$30,914,000 and HK\$63,935,000 (2008: HK\$26,874,000 and HK\$55,596,000) respectively and on the weighted average number of approximately 500,515,000 and 500,226,000 (2008: 435,479,000 and 434,724,000) ordinary shares in issue during the period respectively.

No diluted loss per share has been presented since assuming the conversion and exercise of the Company's outstanding convertible bonds and share options would result in a decrease in loss per share.

**(9) PROPERTY, PLANT AND EQUIPMENT**

The total cost of additions to property, plant and equipment of the Group during the six months to 30 June 2009 was approximately HK\$1,787,000 (2008: HK\$2,255,000). The total carrying amount of disposals of property, plant and equipment during the six months to 30 June 2009 were approximately HK\$16,000 (2008: HK\$1,766,000) for zero proceeds (2008: HK\$1,059,000).

**(10) TRADE AND OTHER RECEIVABLES**

	<b>As at 30 June 2009</b>	As at 31 December 2008
	<b>HK\$'000</b>	<i>HK\$'000</i>
Trade receivables	<b>103,063</b>	127,790
Retention money receivables	<b>7,806</b>	7,806
Other receivables	<b>26,490</b>	30,559
Prepayments and deposits	<b>8,282</b>	8,436
	<b>145,641</b>	174,591

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>As at 30 June 2009</b>	As at 31 December 2008
	<b>HK\$'000</b>	<i>HK\$'000</i>
Within 30 days	<b>50,780</b>	63,041
31-90 days	<b>26,165</b>	24,120
91-180 days	<b>15,649</b>	23,768
181-365 days	<b>10,469</b>	16,861
	<b>103,063</b>	127,790

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$26,118,000 (31 December 2008: HK\$40,629,000) which are past due at the reporting date but not considered as impaired. Majority of the trade receivables being neither past due nor impaired have no default repayment history. The directors of the Company consider that there has not been a significant change in credit quality of the trade debtors and there is no recent history of default, therefore the amounts considered recoverable.

#### (11) TRADE AND OTHER PAYABLES

	<b>As at 30 June 2009</b>	As at 31 December 2008
	<b>HK\$'000</b>	<i>HK\$'000</i>
Trade payables	<b>41,857</b>	155,697
Other payables	<b>37,180</b>	57,781
	<b>79,037</b>	213,478

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

	<b>As at 30 June 2009</b>	As at 31 December 2008
	<b>HK\$'000</b>	<i>HK\$'000</i>
Within 30 days	<b>14,716</b>	79,928
31-90 days	<b>10,444</b>	57,157
91-180 days	<b>13,489</b>	15,156
over 180 days	<b>3,208</b>	3,456
	<b>41,857</b>	155,697

## (12) SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount</b>
		<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each:		
<i>Authorised:</i>		
At 1 January 2009 and 30 June 2009	2,000,000,000	20,000
<i>Issued and fully paid:</i>		
At 1 January 2009	499,430,433	4,994
Exercise of share options	1,085,000	11
At 30 June 2009	500,515,433	5,005

## (13) OPERATING LEASE COMMITMENTS

As at 30 June 2009, the Group had operating lease commitments of approximately HK\$8,393,000 (31 December 2008: HK\$15,642,000), out of which approximately HK\$6,525,000 was payable within 1 year (31 December 2008: HK\$10,281,000).

**(14) RELATED PARTY TRANSACTIONS**

- a. **During the period, the Group had the following transactions with related parties:**

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Sales of goods to a jointly controlled entity	<b>5,132</b>	23,118
Sales of goods to minority shareholders of subsidiaries	<b>21,082</b>	–
Purchases of materials from minority shareholders of subsidiaries	<b>17,764</b>	59,003
Reimbursement of office and administrative expenses to a related company	<b>242</b>	352
Interest expenses to a shareholder	<b>1,984</b>	–

- b. **Compensation of key management personnel**

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

	<b>Six months ended 30 June</b>	
	<b>2009</b>	2008
	<b>HK\$'000</b>	HK\$'000
Short-term benefits	<b>4,115</b>	2,415
Post-employment benefits	<b>49</b>	42
Share-based payments	<b>763</b>	1,270
	<b>4,927</b>	3,727

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries 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 2009, options comprising an aggregate of 3,000,000 shares were outstanding, as detailed below:

	Exercise price per share	Outstanding as at 1.1.2009	Number of share options		Outstanding as at 30.6.2009
			Exercised during Review Period	Lapsed during Review Period	
	HK\$				
Type of participant:					
Director	0.55	3,000,000	–	–	3,000,000

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 9 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; (8) 30,000,000 shares on 31 March 2008 and (9) 13,000,000 shares on 16 February 2009.

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	Outstanding as at 1.1.2009	Number of share options			Outstanding as at 30.6.2009	
					Granted during Review Period	Exercised during Review Period	Lapsed during Review Period		
			HK\$		(Note 7)		(Note 1)		
20.2.2003 (Note 2)	Director	20.2.2004 to 19.2.2013	0.138	1,200,000	-	-	-	1,200,000	
23.2.2004 (Note 2)	Employees	23.2.2005 to 22.2.2014	0.165	81,500	-	-	(5,000)	76,500	
11.10.2004 (Note 2)	Employees	11.10.2005 to 10.10.2014	0.124	82,000	-	(10,000)	(7,500)	64,500	
12.1.2007 (Note 2)	Director	12.1.2008 to 11.1.2017	0.088	562,500	-	-	-	562,500	
	Employees	12.1.2008 to 11.1.2017	0.088	4,110,500	-	(1,075,000)	-	3,035,500	
				<b>4,673,000</b>	-	<b>(1,075,000)</b>	-	<b>3,598,000</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	3,360,000	-	-	(228,000)	3,132,000	
				<b>4,510,000</b>	-	-	<b>(228,000)</b>	<b>4,282,000</b>	
31.3.2008 (Note 4)	Director	1.10.2008 to 31.3.2018	0.890	4,354,000	-	-	-	4,354,000	
	Advisors	1.10.2008 to 31.3.2018	0.890	17,906,000	-	-	(700,000)	17,206,000	
	Employees	1.10.2008 to 31.3.2018	0.890	7,740,000	-	-	(1,302,000)	6,438,000	
				<b>30,000,000</b>	-	-	<b>(2,002,000)</b>	<b>27,998,000</b>	
16.2.2009 (Note 5)	Director	16.2.2010 to 15.2.2019	0.300	-	2,120,000	-	-	2,120,000	
	Advisors	16.2.2010 to 15.2.2019	0.300	-	4,180,000	-	-	4,180,000	
	Employees	16.2.2010 to 15.2.2019	0.300	-	6,700,000	-	-	6,700,000	
				-	<b>13,000,000</b>	-	-	<b>13,000,000</b>	
				<b>Total:</b>	<b>40,546,500</b>	<b>13,000,000</b>	<b>(1,085,000)</b>	<b>(2,242,500)</b>	<b>50,219,000</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) 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 33% of the total options granted, for a period not later than 10 years from the date of grant.
- (6) These share options were granted to Mr. Christos Moumouris, executive Director of the Company.
- (7) The closing price of the Company's shares immediately before 16 February 2009, the date of grant of the options, was HK\$0.30.
- (8) In respect of the share options exercised during the period, the weighted average closing price of the shares of the Company before the date on which the options were exercised was HK\$0.27.
- (9) In respect of the share options exercised during the period, the weighted average closing price of the shares of the Company before the date on which the options were exercised was HK\$0.25.

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 POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2009, 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 Stock 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>
			<i>(Note 1)</i>
Mr. Chan Sek Keung, Ringo	Personal	18,876,000	3.77%
	Corporate <i>(Note 2)</i>	56,400,000	11.27%
Mr. David Tsoi	Personal	413,500	0.08%
Mr. Pang Hing Chung, Alfred	Personal	1,500,000	0.30%

Notes:

- (1) As at 30 June 2009, the total number of issued shares of the Company was 500,515,433.
- (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 unlisted pre-IPO share option outstanding as at	Number of unlisted pre-IPO share option outstanding as at	Number of unlisted post-IPO share option outstanding as at	Number of unlisted post-IPO share option outstanding as at	Aggregate interests	Approximate percentage of the Company's issued share capital
		1.1.2009	30.6.2009	1.1.2009	30.6.2009		
Mr. Chan Sek Keung, Ringo	30.4.2002	3,000,000	3,000,000	-	-	3,000,000	0.84%
	20.2.2003	-	-	1,200,000	1,200,000	1,200,000	
						4,200,000	
Mr. Ko Chun Fung, Henry	31.3.2008	-	-	4,354,000	4,354,000	4,354,000	0.87%
Mr. Christos Moumouris	16.2.2009	-	-	-	2,120,000	2,120,000	0.42%
Mr. David Tsoi	12.1.2007	-	-	562,500	562,500	562,500	0.15%
	7.12.2007	-	-	200,000	200,000	200,000	
						762,500	
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	0.15%

*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.
- (8) Options granted on 16 February 2009 were exercisable during the period from 16 February 2010 to 15 February 2019 at the exercise price of HK\$0.30 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 2009.

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

As at 30 June 2009, 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”)**

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of Share interested</b>	<b>Number of underlying Shares interested</b>	<b>Approximate shareholding percentage</b>
				<i>(Note 1)</i>
Melco LottVentures Holdings Limited (“ <b>Melco LV</b> ”)	Beneficial owner	51,977,024	419,059,095 <i>(Note 5)</i>	94.11%
Melco Leisure and Entertainment Group Limited (“ <b>Melco Leisure</b> ”)	Interest through a controlled corporation	51,977,024 <i>(Note 2)</i>	419,059,095 <i>(Note 2)</i>	94.11%
Melco International Development Limited (“ <b>Melco International</b> ”)	Interest through controlled corporations	51,977,024 <i>(Note 3)</i>	419,059,095 <i>(Note 3)</i>	94.11%

<b>Name of shareholder</b>	<b>Capacity</b>	<b>Number of Share interested</b>	<b>Number of underlying Shares interested</b>	<b>Approximate shareholding percentage</b>
				<i>(Note 1)</i>
Mr. Ho, Lawrence Yau Lung ("Mr. Ho")	Interest through controlled corporations	51,977,024 <i>(Note 4)</i>	419,059,095 <i>(Note 4)</i>	94.11%
	Beneficial owner	–	4,354,000 <i>(Note 6)</i>	0.87%
Intralot International Limited <i>(Note 7)</i>	Beneficial owner	47,632,938 <i>(Note 7)</i>	349,401,622 <i>(Note 7)</i>	79.33%
Intralot S.A. Integrated Lottery Systems and Services ("Intralot S.A.") <i>(Note 7)</i>	Interest through a controlled corporation	47,632,938 <i>(Note 7)</i>	349,401,622 <i>(Note 7)</i>	79.33%
Global Crossing Holdings Limited ("Global Crossing") <i>(Note 8)</i>	Beneficial owner	20,787,042	206,104,195 <i>(Note 5)</i>	45.33%
Toprich Company Limited ("Toprich") <i>(Note 8)</i>	Beneficial owner	9,712,000	–	1.94%
Firich Enterprises Co., Ltd. <i>(Note 8)</i>	Interest through controlled corporations	30,499,042	206,104,195 <i>(Note 5)</i>	47.27%
LottVision Investments Holdings Limited ("LottVision Investments") <i>(Note 9)</i>	Beneficial owner	8,947,934	46,366,121	11.05%
LottVision Limited <i>(Note 9)</i>	Interest through a controlled corporation	8,947,934	46,366,121	11.05%
Mr. Ng Lai Yick <i>(Note 10)</i>	Beneficial owner	3,134,744	–	0.63%
	Interest through a controlled corporation	36,900,000	–	7.37%
North 22 Nominees Limited <i>(Note 10)</i>	Beneficial owner	36,900,000	–	7.37%
Legg Mason, Inc.	Interest through controlled corporations	27,304,000	–	5.46%

*Notes:*

- (1) As at 30 June 2009, the total number of issued shares of the Company was 500,515,433.
- (2) Melco Leisure is deemed to be interested in the 51,977,024 Shares and the underlying 419,059,095 Shares from convertible bonds in the Company as described in (5) below by virtue of its controlling interests in its wholly-owned subsidiary, Melco LV.
- (3) Melco International is deemed to be interested in the 51,977,024 Shares and the underlying 419,059,095 Shares from convertible bonds in the Company as described in (5) below by virtue of its controlling interests in its wholly-owned subsidiary, Melco Leisure.
- (4) Mr. Ho is deemed to be interested in the 51,977,024 Shares and the underlying 419,059,095 Shares from convertible bonds in the Company as described in (5) below by virtue of his controlling interests in Melco International together with Melco LV, which are held by his controlled corporations.
- (5) Convertible bonds in the principal amount of HK\$606,800,000 carrying the rights to subscribe for Shares at an initial conversion price of HK\$0.85 per Share was issued by the Company to Power Way Group Limited ("**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, ("**Oasis Rich**"), 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 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 June 2009, distributed to the shareholders of Power Way as to Melco LV HK\$356,200,231, Global Crossing 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.

- (6) 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.

- (7) Pursuant to an agreement dated 7 September 2008 (as amended by a supplemental agreement dated 26 September 2008) entered into between the Company and Intralot International Limited (the "**Assets Transfer Agreement**"), the Company has agreed to acquire the Assets (as defined in the Assets Transfer Agreement) 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 I 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 projects envisaged by China Sports Lottery Administration and/or China Welfare Lottery Issuance in the PRC, the Company shall pay the success payment to 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 Intralot International Limited, a wholly owned subsidiary of Intralot S.A.
- (8) Firich Enterprises Co., Ltd. is deemed to be interested in the 30,499,042 Shares and the underlying 206,104,195 Shares from convertible bonds in the Company as described in (5) above by virtue of its controlling interests in its wholly-owned subsidiaries, Global Crossing and Toprich.
- (9) LottVision Limited is deemed to be interested in the 8,947,934 Shares and the underlying 46,366,121 Shares from convertible bonds in the Company as described in (5) above by virtue of its controlling interests in its wholly-owned subsidiary, LottVision Investments.
- (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 June 2009.

## AUDIT COMMITTEE

The Company has established the Audit Committee in accordance with the GEM Listing Rules to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises three Independent Non-executive Directors of the Company. The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the six months ended 30 June 2009.

## **REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS**

During the six months ended 30 June 2009, 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. 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 2009.

## **CORPORATE GOVERNANCE**

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules, and where appropriate, adopted the recommended best practices throughout the Review Period.

by Order of the Board of  
**MelcoLot Limited**  
**Chan Sek Keung, Ringo**  
*Chairman*

Hong Kong, 11 August 2009

*As at the date of this report, the Board consists of three executive Directors, namely, Mr. Chan Sek Keung, Ringo, Mr. Ko Chun Fung, Henry and Mr. Christos Moumouris; and three independent non-executive Directors, namely, Mr. David Tsoi, Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond.*