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## **MelcoLot Limited**

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

(Stock Code: 8198)

### **THIRD QUARTER RESULTS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2016**

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

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

*This announcement, 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 GEM 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 the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

## MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of MelcoLot Limited (the “**Company**”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the nine-month period ended 30 September 2016 as follows:

### **Business Review**

The Group is engaged in the provision of lottery-related technologies, systems and solutions to two state-run lottery operators in the People’s Republic of China (the “**PRC**”), namely China Welfare Lottery Issuance Centre and China Sports Lottery Administration Centre (“**CSLA**”). We are a distributor of high quality, versatile lottery terminals and parts for CSLA, which is the exclusive sports lottery operator in the PRC. The distribution business is our major revenue generator and contributed approximately 99% of the Group’s revenue for the nine-month period ended 30 September 2016 (nine-month period ended 30 September 2015: 84%).

The Group has established a presence in the PRC by managing a network of retail outlets, as well as providing system maintenance service and game upgrading technology for the rapid-draw game, “Shi Shi Cai” in the Chongqing Municipality.

China lottery market continued to show steady growth. According to the information published by the Ministry of Finance, China lottery sales achieved a year-on-year growth of 10.4% to RMB31 billion in August 2016. Total lottery sales saw growth by 6.1% year-on-year with accumulative sales of about RMB257.7 billion up to August 2016. While new channels and games are undoubtedly attractive areas for development, we believe the China lottery market will remain challenging due to the evolving regulatory environment. We are closely monitoring the development of this growing market in the PRC.

At the same time, we are continuing to pursue the opportunities to develop international projects and explore PRC business opportunities which can leverage our corporate expertise in gaming and entertainment industry by diversifying our business to support our goal in maximizing long-term shareholders’ value.

## **Financial Review**

The Group continues to be engaged in a single operating segment which is the lottery business. During the nine-month period ended 30 September 2016, total revenue of the Group amounted to HK\$53.0 million (nine-month period ended 30 September 2015: HK\$34.0 million), an increase of approximately 56% which comprised the following:

(1) *Sales of lottery terminals and parts*

Revenues generated from the sales of lottery terminals and parts for the sports lottery amounted to HK\$52.3 million (nine-month period ended 30 September 2015: HK\$28.6 million), representing an increase of approximately 83%.

(2) *Provision of services and solutions for the distribution of lottery products*

Revenues derived from the provision of services and solutions for the distribution of lottery products for the nine-month period ended 30 September 2016 amounted to HK\$0.7 million (nine-month period ended 30 September 2015: HK\$5.4 million), representing a decrease of approximately 87%.

## **Operating Results**

The Group's loss for the nine-month period ended 30 September 2016 amounted to HK\$16.7 million (nine-month period ended 30 September 2015: HK\$25.9 million), representing an improvement of 36%, which was mainly attributable to the combined impact of the following:

- (i) employee benefits costs decreased to HK\$13.1 million for the nine-month period ended 30 September 2016, as compared to HK\$25.1 million for the corresponding period in 2015. The decrease was primarily due to share-based payments of HK\$11.0 million recorded in 2015 in connection with certain 2014 share options that vested in 2015 but no further share-based payments in relation to these share options were recorded in 2016;
- (ii) the increase in other expenses from HK\$6.4 million for the nine-month period ended 30 September 2015 to HK\$10.7 million for the corresponding period in 2016, which was due to the increase in project-related travelling expenses and professional fees; and
- (iii) the increase in interest income by HK\$1.3 million which was mainly due to the improved interest rate for fixed deposit with a longer term of maturity.

## **Dividend**

The Board does not recommend the payment of an interim dividend for the nine-month period ended 30 September 2016 (nine-month period ended 30 September 2015: Nil).

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the nine-month period ended 30 September 2016*

		Three-month period ended 30 September		Nine-month period ended 30 September	
		2016	2015	2016	2015
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	18,986	9,906	53,024	33,982
Purchases and service costs		(17,776)	(9,058)	(49,615)	(30,985)
Other income		1,365	1,201	4,306	3,080
Employee benefits costs		(3,319)	(6,198)	(13,091)	(25,051)
Depreciation of property, plant and equipment		(31)	(62)	(96)	(204)
Share of losses of joint ventures		-	-	(3)	(3)
Other expenses		(3,450)	(2,220)	(10,708)	(6,421)
		(4,225)	(6,431)	(16,183)	(25,602)
Loss before taxation					
Taxation	4	(79)	(131)	(537)	(299)
		(4,304)	(6,562)	(16,720)	(25,901)
Loss for the period					
<b>Other comprehensive (expense) income</b>					
<i>Item that will not be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation to presentation currency		(22)	(529)	1,208	(548)
		(4,326)	(7,091)	(15,512)	(26,449)
Total comprehensive expense for the period					
Loss for the period attributable to:					
Owners of the Company		(4,253)	(6,078)	(16,457)	(24,904)
Non-controlling interests		(51)	(484)	(263)	(997)
		(4,304)	(6,562)	(16,720)	(25,901)
Total comprehensive expense attributable to:					
Owners of the Company		(4,284)	(6,695)	(15,288)	(25,528)
Non-controlling interests		(42)	(396)	(224)	(921)
		(4,326)	(7,091)	(15,512)	(26,449)
Loss per share					
– Basic and diluted	6	<u>HK(0.14) cents</u>	<u>HK(0.19) cents</u>	<u>HK(0.52) cents</u>	<u>HK(0.79) cents</u>

## NOTES:

### (1) BASIS OF PREPARATION

The condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules. The amounts included in this quarterly interim financial information are computed based on the recognition and measurement requirements in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* (“**HKAS 34**”). However this quarterly interim financial information does not contain sufficient information to constitute an interim financial report as defined in HKAS 34.

### (2) SIGNIFICANT ACCOUNTING POLICIES

The quarterly interim financial information has been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 December 2015, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2016. The application of these new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in this condensed consolidated financial information and/or disclosures set out in this condensed consolidated financial information.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of those new and revised HKFRSs will have no material impact on the condensed consolidated financial information.

### (3) REVENUE

An analysis of the Group’s revenue for the three-month and the nine-month period ended 30 September 2016 is as follows:

	Three-month period ended 30 September		Nine-month period ended 30 September	
	2016 <i>HK\$’000</i>	2015 <i>HK\$’000</i>	2016 <i>HK\$’000</i>	2015 <i>HK\$’000</i>
Trading of lottery terminals and parts	18,697	9,418	52,341	28,544
Provision of services and solutions for distribution of lottery products	289	488	683	5,438
	<u>18,986</u>	<u>9,906</u>	<u>53,024</u>	<u>33,982</u>

(4) **TAXATION**

	<b>Three-month period ended</b>		<b>Nine-month period ended</b>	
	<b>30 September</b>		<b>30 September</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<i><b>HK\$'000</b></i>	<i><b>HK\$'000</b></i>	<i><b>HK\$'000</b></i>	<i><b>HK\$'000</b></i>
PRC Enterprise Income Tax				
– Current period	<u><b>79</b></u>	<u><b>131</b></u>	<u><b>537</b></u>	<u><b>299</b></u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the nine-month period ended 30 September 2016 and its corresponding period in 2015.

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

(5) **DIVIDEND**

No interim dividends has been paid or declared by the Company during the nine-month period ended 30 September 2016 (2015: Nil).

(6) **LOSS PER SHARE**

The calculation of basic loss per share for the three-month and nine-month period ended 30 September 2016 has been based on the unaudited loss attributable to owners of the Company of approximately HK\$4,253,000 and HK\$16,457,000 (three-month and nine-month period ended 30 September 2015: HK\$6,078,000 and HK\$24,904,000) and on the weighted average number of approximately 3,145,656,900 and 3,145,656,900 (three-month and nine-month period ended 30 September 2015: 3,145,656,900 and 3,145,597,230) ordinary shares in issue during the period.

The computation of diluted loss per share in 2016 and 2015 did not include the Company's outstanding share options since their assumed exercise would result in a decrease in loss per share.

**(7) SHARE CAPITAL AND RESERVES**

	Attributable to owners of the Company								Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share- based payment reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non- controlling interests HK\$'000	
As at 1 January 2015 (audited)	31,455	1,540,437	63,007	(4,922)	3,811	(1,217,898)	415,890	5,101	420,991
Exchange differences arising on translation to presentation currency	-	-	-	-	(624)	-	(624)	76	(548)
Loss for the period	-	-	-	-	-	(24,904)	(24,904)	(997)	(25,901)
Total comprehensive expense for the period	-	-	-	-	(624)	(24,904)	(25,528)	(921)	(26,449)
Recognition of equity-settled share-based payments	-	-	17,655	-	-	-	17,655	-	17,655
Issue of ordinary shares upon exercise of share options	1	44	(15)	-	-	-	30	-	30
Transfer among reserves ( <i>Note</i> )	-	(1,212,603)	-	-	-	1,212,603	-	-	-
Acquisition of additional interest in a subsidiary	-	-	-	(164)	-	-	(164)	164	-
As at 30 September 2015 (unaudited)	<u>31,456</u>	<u>327,878</u>	<u>80,647</u>	<u>(5,086)</u>	<u>3,187</u>	<u>(30,199)</u>	<u>407,883</u>	<u>4,344</u>	<u>412,227</u>
As at 1 January 2016 (audited)	<u>31,456</u>	<u>327,878</u>	<u>85,157</u>	<u>(5,255)</u>	<u>2,788</u>	<u>(42,273)</u>	<u>399,751</u>	<u>8,796</u>	<u>408,547</u>
Exchange differences arising on translation to presentation currency	-	-	-	-	1,169	-	1,169	39	1,208
Loss for the period	-	-	-	-	-	(16,457)	(16,457)	(263)	(16,720)
Total comprehensive income (expense) for the period	-	-	-	-	1,169	(16,457)	(15,288)	(224)	(15,512)
Recognition of equity-settled share-based payments	-	-	6,678	-	-	-	6,678	-	6,678
As at 30 September 2016 (unaudited)	<u>31,456</u>	<u>327,878</u>	<u>91,835</u>	<u>(5,255)</u>	<u>3,957</u>	<u>(58,730)</u>	<u>391,141</u>	<u>8,572</u>	<u>399,713</u>

*Note:* The reduction of the amount of HK\$1,212,603,000 standing to the credit of the share premium account of the Company to eliminate its accumulated losses of the Company of HK\$1,212,603,000 as at 31 December 2014 (the “**Accumulated Losses Elimination**”) was approved by the Board in March 2015. The Accumulated Losses Elimination complied with the Cayman Islands’ Companies Law (Cap. 22) and the articles of association of the Company.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the nine-month period ended 30 September 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## **COMPETING INTEREST**

During the nine-month period ended 30 September 2016, none of the Directors, the controlling shareholder of the Company and their respective close associates (as defined in the GEM Listing Rules) had interest in any business which competes or may compete with the business of the Group and any other conflicts of interest with the Group.

## **AUDIT COMMITTEE**

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls. It also reviews the effectiveness of the audit process and risk evaluation. The audit committee comprises three independent non-executive Directors, namely Mr. Tsoi, David (Chairman of the audit committee), Mr. Pang Hing Chung, Alfred and Ms. Chan Po Yi, Patsy and a non-executive Director, namely Mr. Tsui Che Yin, Frank. The financial information contained in the third quarter results for the nine-month period ended 30 September 2016 has not been audited by the auditor of the Company, but has been reviewed by the audit committee.

By Order of the Board

**MelcoLot Limited**

**Ko Chun Fung, Henry**

*Executive Director and Chief Executive Officer*

Hong Kong, 4 November 2016

*As at the date of this announcement, the Board comprises Mr. Tsui Che Yin, Frank\* (Chairman), Mr. Ko Chun Fung, Henry#, Mr. Tsang Yuen Wai, Samuel#, Mr. Tam Chi Wai, Dennis#, Mr. Tsoi, David+, Mr. Pang Hing Chung, Alfred+ and Ms. Chan Po Yi, Patsy+.*

# *Executive Director*

\* *Non-executive Director*

+ *Independent Non-executive Director*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for a minimum period of 7 days from the date of its publication and on the Company's website at [www.melcolot.com](http://www.melcolot.com).*