

MelcoLot Limited

(incorporated in the Cayman Islands with limited liability)

09

Third Quarterly Report



新濠環彩

MelcoLot

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

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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 GEM of the 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 three months and nine months ended 30 September 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\$235.6 million (2008: HK\$355.6 million), representing a decrease of 33.7%. The decrease was mainly due to the decline in sales generated from network systems integration business, from HK\$298.1 million last year to HK\$178.9 million for the Review Period, or a drop of 40%. Owing to the global economic downturn, capital expenditure and upgrading plans on the network system for our customers have been partially cancelled or postponed. This macroeconomic environment in conjunction with the highly competitive nature of the system integration business have adversely impacted the results in this segment.

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 maintained at HK\$56.6 million (2008: HK\$57.5 million).

Consolidated loss attributable to owners of the Company amounted to HK\$100.2 million for the Review Period (2008: loss of HK\$86.2 million), after charging the non-cash imputed interest expenses on convertible bonds amounting to approximately HK\$49.2 million (2008: HK\$28.3 million) and amortisation of other intangible assets of HK\$15.4 million (2008: HK\$39.0 million).

During the Review Period, 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 decreased by 21.5% and amounted to HK\$37.6 million (2008: HK\$47.9 million) and other expenses decreased by 18.8% and amounted to HK\$53.3 million (2008: HK\$65.7 million). The total cash and cash equivalent of the Group maintained at approximately HK\$105.4 million as at 30 September 2009 (30 September 2008: HK\$97.4 million).

Dividend

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

Outlook

With the gradual evolution of the lottery industry in Mainland China under the new lottery regulations recently released by the Chinese Government, the Group has been focused on carefully reviewing new lottery opportunities as they arise with the objective of identifying trends in market development and profitable opportunities. One area of growth should be the enhanced single match shops licensed by the China Sports Lottery Administration Center to provide the exciting new fixed odds sports lottery games to customers. The Group is well positioned to benefit from this development through its venue management business which already manages a large chain of retail outlets selling traditional computer game lottery tickets and scratch tickets. The group is also evaluating various opportunities related to provision of new technologies and platforms by virtue of its technology license from strategic shareholder Intralot S.A., within the framework of the new lottery regulations announced by the Chinese Government.

Post Balance Sheet Event

Subsequent to the balance sheet date of 30 September 2009 for the Review Period under this report, as announced on 11 November 2009, the Company entered into the sale and purchase agreement dated 5 November 2009 with Fortune Grace Management Limited (the "**Purchaser**"), a company owned as to 70% by Mr. Chan Sek Keung, Ringo, Chairman and executive director of the Company and 30% by two other directors of certain subsidiaries of Wafer Systems Limited ("**Wafer**"), a wholly owned subsidiary of the Company, pursuant to which the Purchaser has agreed to acquire and the Company has agreed to sell the entire issued share capital of Wafer for a consideration of HK\$30 million (the "**Realisation**"). The Group is expected to recognise a loss on the Realisation of approximately HK\$25.2 million, which is calculated with reference to the difference between the consideration and the unaudited consolidated net asset value of Wafer and its subsidiaries. The Realisation is subject to, among others, the approval by the independent shareholders other than Mr. Chan Sek Keung, Ringo and his associates at an extraordinary general meeting to be taken by way of a poll.

Condensed Consolidated Income Statement

For the nine months ended 30 September 2009

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2009	2008	2009	2008
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	72,685	120,353	235,569	355,575
Changes in inventories of finished goods and work-in-progress		(10,222)	6,990	(43,119)	45,913
Purchases of inventories and raw materials consumed		(43,352)	(99,751)	(139,322)	(311,565)
Other income and gains		36	607	2,045	4,858
Employee benefits costs		(12,786)	(14,895)	(37,624)	(47,879)
Depreciation and amortisation		(7,379)	(14,718)	(21,731)	(44,007)
Share of profits (losses) of jointly controlled entities		618	(619)	103	(1,771)
Other expenses		(21,463)	(21,145)	(53,344)	(65,684)
Finance costs	4	(18,214)	(11,737)	(54,218)	(32,688)
Loss before taxation		(40,077)	(34,915)	(111,641)	(97,248)
Taxation	5	799	(300)	3,109	(1,918)
Loss for the period		<u>(39,278)</u>	<u>(35,215)</u>	<u>(108,532)</u>	<u>(99,166)</u>
Attributable to:					
Owners of the Company		(36,216)	(30,611)	(100,151)	(86,207)
Non-controlling interests		(3,062)	(4,604)	(8,381)	(12,959)
		<u>(39,278)</u>	<u>(35,215)</u>	<u>(108,532)</u>	<u>(99,166)</u>
Loss per share	7				
- Basic (cents)		<u>(7.23)</u>	(6.95)	<u>(20.01)</u>	(19.74)
- Diluted (cents)		<u>N/A</u>	N/A	<u>N/A</u>	N/A

Notes:**(1) BASIS OF PRESENTATION**

The condensed consolidated results have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “**GEM Listing Rules**”) of the Stock Exchange of Hong Kong Limited (the “**Exchange**”) and with accounting standards issued by the Hong Kong Institute of Certified Public Accountants.

(2) SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated results 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 results as were applied in the preparation of the Group’s financial statements for the year ended 31 December 2008.

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) REVENUE

The Group's revenue recognised for the three and nine months ended 30 September 2009 together with the comparative figures for the corresponding period in 2008 are analysed as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Network systems integration	51,325	104,075	178,939	298,107
Lottery business	21,360	16,278	56,630	57,468
	72,685	120,353	235,569	355,575

(4) FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest expenses on bank borrowings	254	425	684	2,016
Interest expenses on other loans	1,214	1,530	4,353	2,341
Effective interest expenses on convertible bonds	16,746	9,782	49,181	28,331
	18,214	11,737	54,218	32,688

(5) TAXATION

	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current period:				
Enterprise Income Tax of the People's Republic of China (the "PRC")	236	300	452	1,918
Deferred taxation	(1,035)	–	(3,561)	–
Tax (credit)/charge	(799)	300	(3,109)	1,918

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

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

(6) DIVIDEND

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

(7) LOSS PER SHARE

The calculation of basic loss per share for the three months and the nine months ended 30 September 2009 is based on the unaudited loss attributable to owners of the Company of approximately HK\$36,216,000 (2008: HK\$30,611,000) and approximately HK\$100,151,000 (2008: HK\$86,207,000) respectively and on the weighted average number of approximately 500,701,000 and 500,385,000 (2008: 440,530,000 and 436,674,000) ordinary shares (the "Shares") in issue during the period.

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.

(8) CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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	-	-	-	-	-	-	(86,207)	(86,207)	(12,959)	(99,166)
Exchange differences on translation of foreign operations	-	-	-	-	-	7,053	-	7,053	79	7,132
Total comprehensive income (loss) for the period	-	-	-	-	-	7,053	(86,207)	(79,154)	(12,880)	(92,034)
Recognition of equity-settled share-based payments	-	-	14,725	-	-	-	-	14,725	-	14,725
Exercise of share options	33	826	(95)	-	-	-	-	764	-	764
Shares issued	357	27,469	-	-	-	-	-	27,846	-	27,846
Non-controlling interests arising from acquisition of a subsidiary	-	-	-	-	-	-	-	-	527	527
As at 30 September 2008 (unaudited)	4,712	362,335	14,989	2,007	611,692	11,536	(559,012)	448,259	43,836	492,095
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	-	-	-	-	-	-	(100,151)	(100,151)	(8,381)	(108,532)
Exchange differences on translation of foreign operations	-	-	-	-	-	4,566	-	4,566	-	4,566
Total comprehensive income (loss) for the period	-	-	-	-	-	4,566	(100,151)	(95,585)	(8,381)	(103,966)
Recognition of equity-settled share-based payments	-	-	4,334	-	-	-	-	4,334	-	4,334
Exercise of share options	14	155	(58)	-	-	-	-	111	-	111
As at 30 September 2009 (unaudited)	5,008	368,695	20,520	5,589	645,492	41,750	(1,018,679)	88,375	21,843	90,218

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the nine months ended 30 September 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 September 2009, 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 30.9.2009
		Outstanding as at 1.1.2009	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-month 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 10 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; (9) 13,000,000 shares on 16 February 2009 and (10) 34,968,000 shares on 10 July 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	Number of share options				Outstanding as at 30.9.2009
				Outstanding as at 1.1.2009	Granted during Review Period	Exercised during Review Period	Lapsed during Review Period	
			HK\$				(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	-	(10,000)	(5,000)	66,500
						(Note 10)		
11.10.2004 (Note 2)	Employees	11.10.2005 to 10.10.2014	0.124	82,000	-	(10,000)	(7,500)	64,500
						(Note 11)		
12.1.2007 (Note 2)	Director	12.1.2008 to 11.1.2017	0.088	562,500	-	(187,500)	-	375,000
	Employees	12.1.2008 to 11.1.2017	0.088	4,110,500	-	(1,175,500)	-	2,935,000
				4,673,000	-	(1,363,000)	-	3,310,000
						(Note 12)		
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	-	-	(244,000)	3,116,000
				4,510,000	-	-	(244,000)	4,266,000

Date of grant	Type of participants	Exercisable period	Exercise price per share	Number of share options				
				Outstanding as at 1.1.2009	Granted during Review Period	Exercised during Review Period	Lapsed during Review Period	Outstanding as at 30.9.2009
				HK\$			(Note 1)	
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	-	-	(1,440,000)	6,300,000
				30,000,000	-	-	(2,140,000)	27,860,000
16.2.2009 (Notes 5 & 6)	Director	16.2.2010 to 15.2.2019	0.300	-	2,120,000 (Note 8)	-	-	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
				-	13,000,000	-	-	13,000,000
10.7.2009 (Notes 5 & 7)	Directors	10.7.2010 to 9.7.2019	0.367	-	10,100,000 (Note 9)	-	-	10,100,000
	Advisors	10.7.2010 to 9.7.2019	0.367	-	8,880,000	-	-	8,880,000
	Employees	10.7.2010 to 9.7.2019	0.367	-	15,988,000	-	-	15,988,000
				-	34,968,000	-	-	34,968,000
Total:				40,546,500	47,968,000	(1,383,000)	(2,396,500)	84,735,000

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-month 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-month 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) The closing price of the Company's shares immediately before 16 February 2009, the date of grant of the options, was HK\$0.30.
- (7) The closing price of the Company's shares immediately before 10 July 2009, the date of grant of the options, was HK\$0.36.
- (8) These share options were granted to Mr. Christos Moumouris, executive Director of the Company.
- (9) These share options were granted to Mr. Chan Sek Keung, Ringo, Mr. Ko Chun Fung, Henry and Mr. Christos Moumouris, executive Directors of the Company; and Mr. David Tsoi, Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond, independent non-executive Directors of the Company.
- (10) 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\$0.28.
- (11) 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.

- (12) 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.

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 September 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 Exchange pursuant to the required standard of dealings by Directors as referred to in Rules 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	11.26%
Mr. David Tsoi	Personal	601,000	0.12%
Mr. Pang Hing Chung, Alfred	Personal	1,500,000	0.30%

Notes:

- (1) As at 30 September 2009, the total number of issued shares of the Company was 500,813,433.
- (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	Number of	Number of	Number of	Aggregate interests	Approximate percentage of the Company's issued share capital
		unlisted pre-IPO share option outstanding as at 1.1.2009	unlisted pre-IPO share option outstanding as at 30.9.2009	unlisted post-IPO share option outstanding as at 1.1.2009	unlisted post-IPO share option outstanding as at 30.9.2009		
Mr. Chan Sek Keung, Ringo	30.4.2002 (Note 3)	3,000,000	3,000,000	-	-	3,000,000	
	20.2.2003 (Note 4)	-	-	1,200,000	1,200,000	1,200,000	
	10.7.2009 (Note 9)	-	-	-	3,000,000	3,000,000	
						<u>7,200,000</u>	1.44%
Mr. Ko Chun Fung, Henry	31.3.2008 (Note 7)	-	-	4,354,000	4,354,000	4,354,000	
	10.7.2009 (Note 9)	-	-	-	4,000,000	4,000,000	
						<u>8,354,000</u>	1.67%
Mr. Christos Moumouris	16.2.2009 (Note 8)	-	-	-	2,120,000	2,120,000	
	10.7.2009 (Note 9)	-	-	-	2,500,000	2,500,000	
						<u>4,620,000</u>	0.92%
Mr. David Tsoi	12.1.2007 (Note 5)	-	-	562,500	375,000	375,000	
	7.12.2007 (Note 6)	-	-	200,000	200,000	200,000	
	10.7.2009 (Note 9)	-	-	-	200,000	200,000	
						<u>775,000</u>	0.15%
Mr. Pang Hing Chung, Alfred	7.12.2007 (Note 6)	-	-	200,000	200,000	200,000	
	10.7.2009 (Note 9)	-	-	-	200,000	200,000	
						<u>400,000</u>	0.08%
Mr. So Lie Mo, Raymond	7.12.2007 (Note 6)	-	-	750,000	750,000	750,000	
	10.7.2009 (Note 9)	-	-	-	200,000	200,000	
						<u>950,000</u>	0.19%
		<u>3,000,000</u>	<u>3,000,000</u>	<u>7,266,500</u>	<u>19,299,000</u>	<u>22,299,000</u>	<u>4.45%</u>

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 represents 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.
- (9) Options granted on 10 July 2009 were exercisable during the period from 10 July 2010 to 9 July 2019 at the exercise price of HK\$0.367 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 2009.

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

As at 30 September 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")

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Number of Share interested</u>	<u>Number of underlying Shares interested</u>	<u>Approximate shareholding percentage</u>
				<i>(Note 1)</i>
Melco LottVentures Holdings Limited (" Melco LV ")	Beneficial owner	51,977,024	419,059,095 <i>(Note 5)</i>	94.05%
Melco Leisure and Entertainment Group Limited (" Melco Leisure ")	Interest through a controlled corporation	51,977,024 <i>(Note 2)</i>	419,059,095 <i>(Note 2)</i>	94.05%
Melco International Development Limited (" Melco International ")	Interest through controlled corporations	51,977,024 <i>(Note 3)</i>	419,059,095 <i>(Note 3)</i>	94.05%
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>	94.05%
	Beneficial owner	–	8,354,000 <i>(Note 6)</i>	1.67%
Intralot International Limited <i>(Note 7)</i>	Beneficial owner	47,632,938 <i>(Note 7)</i>	349,401,622 <i>(Note 7)</i>	79.28%
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>	79.28%

<u>Name of shareholder</u>	<u>Capacity</u>	<u>Number of Share interested</u>	<u>Number of underlying Shares interested</u>	<u>Approximate shareholding percentage</u>
				<i>(Note 1)</i>
Global Crossing Holdings Limited (" Global Crossing ") <i>(Note 8)</i>	Beneficial owner	20,787,042	206,104,195 <i>(Note 5)</i>	45.30%
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>	47.24%
LottVision Investments Holdings Limited (" LottVision Investments ") <i>(Note 9)</i>	Beneficial owner	8,947,934	46,366,121	11.04%
LottVision Limited <i>(Note 9)</i>	Interest through a controlled corporation	8,947,934	46,366,121	11.04%
Mr. Ng Lai Yick <i>(Note 10)</i>	Beneficial owner	2,086,744	–	0.42%
	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	–	5.45%

Notes:

- (1) As at 30 September 2009, the total number of issued shares of the Company was 500,813,433.
- (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 September 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 underlying 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 2,086,744 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 2009.

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 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 nine months ended 30 September 2009.

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

Hong Kong, 11 November 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.