



新濠環彩
MelcoLot

MelcoLot Limited
(incorporated in the Cayman Islands with limited liability)



First Quarterly Report 2010

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 three months ended March 31, 2010 (the “**Review Period**”) and the comparative unaudited figures for the corresponding period in 2009.

Business Review

Total revenue of the Group during the Review Period amounted to HK\$10.0 million (2009: HK\$16.9 million). The decrease of 41.0% was primarily occasioned by lower sales of lottery terminals during the Review Period, pursuant to a slow down and deferral in orders placed by provincial Sports Lottery Administration Centers while awaiting the new procurement cycle that is expected to be rolled out by the China Sports Lottery Administration Center during 2010.

Consequent to the decline in revenue, arising from the above market conditions, losses from the lottery business amounted to HK\$34.8 million for the Review Period (2009: HK\$31.9 million). The loss included non-cash charges on account of imputed interest on convertible bonds and depreciation and amortization amounting to HK\$17.7 million (2009: HK\$16.6 million) and HK\$5.7 million (2009: HK\$6.3 million), respectively.

During the Review Period, the Group has further streamlined the operations, and imposed tight cost control measures in all applicable areas. The employee benefits costs decreased by 11.1% and amounted to HK\$5.6 million (2009: HK\$6.3 million) for the Review Period.

Subsequent to the sale of the network system integration business in December 2009, the Group is able to enhance its efforts to seek out new lottery related growth opportunities. On March 5, 2010, the Group completed the acquisition of 35% equity interest in China Excellent Net Technology Investment Limited (“**China Excellent**”), which is engaged in the provision of lottery related technology solutions and management services for mobile lottery business in China, at a consideration of HK\$7.0 million. According to the terms of the acquisition, only HK\$3.0 million has been paid as at March 31, 2010. The Group is currently developing the relevant technology platform and solutions for this venture in conjunction with its strategic shareholder Intralot S.A. (“**Intralot**”).

Loss of HK\$3.6 million from discontinued operations for the three months ended March 31, 2009 was derived from the Group’s network system integration operations.

Dividend

No interim dividend has been paid or declared by the Company during the three months ended March 31, 2010 (2009: Nil).

Outlook

The single match games, or skill games, launched in 2009 are expected to provide a growth engine to the lottery market in China, and the Group is poised to participate in this growth through its venue management business as single match games are increasingly being provided in selected locations in the network of retail outlets managed by the Group under our brand name “Lucky Pool”.

Furthermore, the China lottery market should be positively impacted by the upcoming FIFA World Cup in June 2010 which is keenly followed across China. The Group’s venue management business anticipates a boost in sales from this event.

The Group’s point of sales terminal manufacturing and sales business should also benefit from the new procurement cycle expected to be rolled out by the China Sports Lottery Administration Center during 2010. It is reasonable to expect that orders previously deferred may be placed soon after the new procurement cycle is commenced.

The Group expects that new technologies and sales platforms will increasingly become the battlefield for the market in China. In addition to its mobile lottery venture with China Excellent, the Group will continue to seek competitive advantage through its access to Intralot’s world leading lottery industry software and technology.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended March 31, 2010

		(Unaudited) Three months ended March 31,	
	Notes	2010 HK\$'000	2009 HK\$'000 (restated)
Continuing operations			
Revenue	3	9,963	16,888
Changes in inventories of finished goods and work-in-progress		(7,272)	(1,703)
Purchases of inventories and raw materials consumed		(626)	(11,550)
Other income and gains		272	1,945
Employee benefits costs		(5,570)	(6,264)
Depreciation and amortization		(5,666)	(6,285)
Share of losses of jointly controlled entities		(487)	(352)
Share of losses of an associate		(71)	-
Other expenses		(7,649)	(6,512)
Finance costs	4	(18,694)	(17,551)
Loss before taxation		(35,800)	(31,384)
Taxation	5	1,035	(550)
Loss for the period from continuing operations		(34,765)	(31,934)
Discontinued operations			
Loss for the period from discontinued operations	7	-	(3,610)
Loss for the period		(34,765)	(35,544)
Loss for the period attributable to:			
Owners of the Company		(33,131)	(33,021)
Non-controlling interests		(1,634)	(2,523)
		(34,765)	(35,544)
Loss per share	8		
From continuing and discontinued operations			
– Basic and diluted		(HK6.60 cents)	(HK6.61 cents)
From continuing operations			
– Basic and diluted		(HK6.60 cents)	(HK5.88 cents)

NOTES:

(1) Basis of presentation

The quarterly interim financial information has been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules of the Stock Exchange. The amounts included in the quarterly interim financial report are computed based on the recognition and measurement requirements in accordance with HKAS 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The unaudited consolidated financial results have been prepared on a going concern basis. The Group incurred a loss of HK\$34.8 million for the three months ended March 31, 2010. In preparing the unaudited consolidated financial results, the directors of the Company have carefully reviewed the Group’s financial position, future liquidity and cash flow forecast. In reviewing the Group’s current and future financial position, the directors have considered the following factors:

- The ability to successfully replace the convertible bonds with equity instruments;
- The ability to successfully capitalize other loans to equity;
- Cost control measures.

The directors of the Company believe the above measures, if successfully implemented, will improve the Group’s financial position and strengthen the capital base of the Group and accordingly, have prepared the unaudited consolidated results on a going concern basis.

(2) Significant accounting policies

The quarterly interim report 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 December 31, 2009, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations (“HKFRSs”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on January 1, 2010. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the unaudited consolidated results.

(3) Revenue

An analysis of the Group's revenue for the three months ended March 31, 2010 from continuing operations, is as follows:

	Three months ended March 31,	
	2010	2009
	HK\$'000	HK\$'000
Provision of management services for distribution of lottery products	2,354	3,215
Manufacturing and sales of lottery terminals and point of sales machines	7,609	13,673
	9,963	16,888

(4) Finance costs

	Three months ended March 31,	
	2010	2009
	HK\$'000	HK\$'000
Continuing operations		
Effective interest expenses on convertibles bonds	17,708	16,565
Interest expenses on other loans	986	986
	18,694	17,551

(5) Taxation

	Three months ended March 31,	
	2010	2009
	HK\$'000	HK\$'000
Continuing operations		
Enterprise Income Tax of the People's Republic of China (the "PRC")		
– Current period	–	550
Deferred taxation		
– Current period	(1,035)	–
Tax (credit)/charge	(1,035)	550

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the three months ended March 31, 2010 and its corresponding period in 2009.

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 three months ended March 31, 2010 (2009: Nil).

(7) Discontinued operations

On November 5, 2009, the Group entered into a sale and purchase agreement with a related company, in which a director of the Company has beneficial interest, to dispose of Wafer Systems Limited and its subsidiaries (the “**Wafer Group**”), which carried out all of the Group’s network system integration operations. The disposal was effected in order to generate cash flows for the expansion of the Group’s lottery business. The disposal was completed on December 30, 2009, on which date control of the Wafer Group passed to the acquirer.

The results of the discontinued operations for the three months ended March 31, 2009 were as follows:

	Three months ended March 31, 2009
	<i>HK\$'000</i>
Revenue	79,418
Changes in inventories of finished goods and work-in-progress	(51,978)
Purchases of inventories and raw materials consumed	(10,031)
Other income and gains	3
Employee benefits costs	(6,811)
Depreciation and amortization	(723)
Other expenses	(12,470)
Finance costs	(1,018)
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Loss before taxation	(3,610)
Taxation	–
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Loss for the period	(3,610)

(8) Loss per share

From continuing and discontinued operations

The calculation of basic and diluted loss per share for the three months ended March 31, 2010 is based on the unaudited loss attributable to owners of the Company of HK\$33,131,000 (2009: HK\$33,021,000) and on the weighted average number of 501,697,675 (2009: 499,936,587) ordinary shares in issue during the period.

The computation of diluted loss per share does not include the Company's outstanding convertible bonds and share options since their assumed conversion and exercise would result in a decrease in loss per share.

From continuing operations

The calculation of basic and diluted loss per share from continuing operations for the three months ended March 31, 2010 is based on the unaudited loss from continuing operations attributable to owners of the Company of HK\$33,131,000 (2009: HK\$29,411,000) and the denominators used are the same as those detailed above for basic and diluted loss per share.

(9) Share capital and reserves

	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Share-based payment reserve HK\$'000	PRC statutory reserves HK\$'000	Convertible bonds equity reserve HK\$'000	Exchange reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
As at January 1, 2009 (audited)	4,994	368,540	16,244	5,589	645,492	37,184	(918,528)	159,515	30,224	189,739
Recognition of equity-settled share-based payments	-	-	2,104	-	-	-	-	2,104	-	2,104
Issue of ordinary shares upon exercise of share options	11	121	(44)	-	-	-	-	88	-	88
Exchange differences on translation of foreign operations	-	-	-	-	-	(2,015)	-	(2,015)	-	(2,015)
Loss for the period	-	-	-	-	-	-	(33,021)	(33,021)	(2,523)	(35,544)
As at March 31, 2009 (unaudited)	5,005	368,661	18,304	5,589	645,492	35,169	(951,549)	126,671	27,701	154,372
As at January 1, 2010 (audited)	5,008	368,695	22,290	3,543	645,492	37,408	(1,304,501)	(222,065)	20,883	(201,182)
Recognition of equity-settled share-based payments	-	-	1,224	-	-	-	-	1,224	-	1,224
Issue of ordinary shares upon exercise of share options	18	228	(89)	-	-	-	-	157	-	157
Exchange differences on translation of foreign operations	-	-	-	-	-	1,386	-	1,386	-	1,386
Loss for the period	-	-	-	-	-	-	(33,131)	(33,131)	(1,634)	(34,765)
Payment of dividend	-	-	-	-	-	-	-	-	(653)	(653)
As at March 31, 2010 (unaudited)	5,026	368,923	23,425	3,543	645,492	38,794	(1,337,632)	(252,429)	18,596	(233,633)

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

During the three months ended March 31, 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

As at March 31, 2010, the interests of the directors, the chief executive and their respective associates 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 maintained 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 of the Company as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(a) Long positions in ordinary shares of HK\$0.01 each of the Company

Name of director	Number of shares			Approximate percentage of issued share capital of the Company <i>(Note 1)</i>
	Beneficial owner	Held by controlled corporation(s)	Total number of shares	
Mr. Chan Sek Keung, Ringo ("Mr. Chan")	18,876,000	34,400,000 <i>(Note 2)</i>	53,276,000	10.60%
Mr. Tsoi, David	788,500	-	788,500	0.16%
Mr. Pang Hing Chung, Alfred	1,500,000	-	1,500,000	0.30%

Notes:

- (1) As at March 31, 2010, the total number of issued shares of the Company was 502,621,933.
- (2) Mr. Chan is deemed to be interested in 34,400,000 ordinary shares of the Company beneficially held by Woodstock Management Limited, a company wholly owned by him.

(b) Long positions in the underlying shares of the Company

<u>Name of director</u>	<u>Capacity</u>	<u>Number of share options held</u>	<u>Number of underlying shares</u>
Mr. Ko Chun Fung, Henry	Beneficial owner	8,354,000	8,354,000
Mr. Moumouris, Christos	Beneficial owner	4,620,000	4,620,000
Mr. Chan Sek Keung, Ringo	Beneficial owner	7,200,000	7,200,000
Mr. Wang, John Peter Ben	Beneficial owner	6,846,000	6,846,000
Mr. Tsoi, David	Beneficial owner	387,500	387,500
Mr. Pang Hing Chung, Alfred	Beneficial owner	200,000	200,000
Mr. So Lie Mo, Raymond	Beneficial owner	200,000	200,000
		<u>27,807,500</u>	<u>27,807,500</u>

Save as disclosed above, none of the directors, chief executive and their respective associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at March 31, 2010.

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2010, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors and the chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

(a) Long positions in ordinary shares of HK\$0.01 each of the Company

Name of shareholder	Number of shares			Approximate percentage of issued share capital of the Company
	Beneficial owner	Held by controlled corporation(s)	Total number of shares	
Melco International Development Limited ("Melco International")	-	55,551,619 (Note 2)	55,551,619	11.05%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho")	-	55,551,619 (Note 3)	55,551,619	11.05%
Intralot S.A. Integrated Lottery Systems and Services ("Intralot S.A.")	-	50,908,779 (Note 4)	50,908,779	10.13%
Firich Enterprises Co., Ltd. ("Firich")	2,097,498	31,667,042 (Note 5)	33,764,540	6.72%
Legg Mason, Inc.	-	27,304,000	27,304,000	5.43%

(b) Long positions in the underlying shares of the Company
Number of underlying shares

Name of shareholder	Beneficial owner	Held by controlled corporation(s)	Total number of underlying shares	Approximate percentage of issued share capital of the Company
				(Note 1)
Melco International Development Limited	-	470,006,742 (Note 2)	470,006,742	93.51%
Mr. Ho, Lawrence Yau Lung	8,354,000 (Note 6)	470,006,742 (Note 3)	478,360,742	95.17%
Intralot S.A. Integrated Lottery Systems and Services	-	366,376,270 (Note 4)	366,376,270	72.89%
Firich Enterprises Co., Ltd.	20,796,765	206,104,195 (Note 5)	226,900,960	45.14%

Notes:

- (1) As at March 31, 2010, the total number of issued shares of the Company was 502,621,933.
- (2) Melco International is deemed by the SFO to be interested in 55,551,619 shares of the Company and 470,006,742 underlying shares from convertible bonds in the Company as described in (7) below by virtue of its indirect holding of its wholly owned subsidiaries, Melco Leisure and Entertainment Group Limited and Melco LottVentures Holdings Limited.
- (3) Mr. Ho is deemed by the SFO to be interested in 55,551,619 shares of the Company and 470,006,742 underlying shares from convertible bonds in the Company as described in (7) below by virtue of his controlling interests in Melco International, which is held by his controlled corporations, and his indirect holding of Melco Leisure and Entertainment Group Limited and Melco LottVentures Holdings Limited.
- (4) Intralot S.A. is deemed by the SFO to be interested in 50,908,779 shares of the Company and 366,376,270 underlying shares from convertible bonds in the Company as described in (8) below by virtue of its indirect holding of its wholly owned subsidiaries, Intralot Holdings International Limited and Intralot International Limited.

- (5) Firich is deemed by the SFO to be interested in 31,667,042 shares of the Company and 206,104,195 underlying shares from convertible bonds in the Company as described in (7) below by virtue of its indirect holding of its wholly owned subsidiaries, Firich International Co., Ltd., Global Crossing Holdings Ltd. and Toprich Company Limited.
- (6) Mr. Ho renders consultancy services in respect of the business development of the Group without receiving any compensation. The Company granted share options to him for recognizing his services similar to those rendered by other employees.
- (7) On December 13, 2007, the Company issued convertible bonds (the “**Convertible Bonds I**”) with principal amount of HK\$606,800,000 to Power Way Group Limited as part of the consideration for the acquisition of subsidiaries, which entitle the holder to convert them into 713,882,352 ordinary shares of the Company within 5 years from the date of issue at a conversion price of HK\$0.85 per share subject to anti-dilutive adjustments. If the Convertible Bonds I have not been converted, they will be redeemed on maturity date of December 12, 2012. Power Way Group Limited had subsequently distributed all Convertible Bonds I to its shareholders, and as at March 31, 2010, as to principal amount of HK\$399,585,732 by Melco LottVentures Holdings Limited, HK\$192,865,817 by Firich and its associates and the balance of HK\$14,428,451 by Intralot International Limited.
- (8) Pursuant to an agreement dated September 7, 2008 (as amended by a supplemental agreement dated September 26, 2008) entered into between the Company and Intralot International Limited, the Company issued convertible bonds (the “**Convertible Bonds II**”) with principal amount of HK\$277,175,310 to Intralot International Limited, as part of the consideration for the acquisition of intangible assets on December 9, 2008, which entitle the holder to convert them into 279,692,542 ordinary shares of the Company within 5 years from the date of issue at a conversion price of HK\$0.991 per share subject to anti-dilutive adjustments. If the Convertible Bonds II have not been converted, they will be redeemed on maturity date of December 8, 2013. In addition, upon obtaining two agreements in connection with the recognised projects in China, the Company shall pay the success payment, satisfied by convertible bonds, to Intralot International Limited, which are convertible into 69,709,080 ordinary shares of the Company at a conversion price of HK\$1.0759 per share.

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 March 31, 2010.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at March 31, 2010, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interests in any business which competes or may compete with the business 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 results for the three months ended March 31, 2010.

By order of the Board
MelcoLot Limited
Ko Chun Fung, Henry

Executive Director and Chief Executive Officer

Hong Kong, May 10, 2010

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