

First Quarter Report

2011

MelcoLot Limited

(incorporated in the Cayman Islands with limited liability)

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



新濠環彩
MelcoLot

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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 three months ended March 31, 2011 (the “**Review Period**”) as follows:

Business Review

The Group is principally engaged in the provision of lottery related technologies, systems and solutions in the People’s Republic of China (the “**PRC**”). It is a recognized manufacturer and distributor of high quality, versatile point of sale lottery terminals for the PRC lottery authorities. The Group has a wide retail presence across several provinces by managing a network of retail outlets for sale of lottery tickets, including the increasingly popular skill games (similar to fixed odds betting). The Group is also engaged in the distribution of scratch card tickets for both China Sports Lottery and China Welfare Lottery. In addition to being the PRC licence holder for Intralot S.A.’s world leading lottery technologies, the Group is also a member of the Nanum Lotto consortium which is the exclusive operator of South Korean national welfare lottery.

During the Review Period, total revenue of the Group was HK\$14.0 million (2010: HK\$10.0 million), representing an increase of 40.0%. The increase was mainly due to higher sales of lottery terminals during the Review Period, which is because of increase in demand from expansion of skill game lottery shops by China Sports Lottery.

Loss for the period amounted to HK\$33.6 million for the Review Period (2010: HK\$34.8 million), after charging non-cash expenses including:

- (i) imputed interest on convertible bonds of HK\$20.6 million (2010: HK\$17.7 million) due to the liability component of the convertible bonds carried at amortized cost by using the effective interest method; and
- (ii) depreciation and amortization expenses of property, plant and equipment and intangible assets of HK\$1.6 million (2010: HK\$5.7 million).

Loss before interest, taxes, depreciation and amortization for the Review Period amounted to HK\$11.0 million (2010: HK\$11.4 million), which represented an improvement of 4%. During the Review Period, the Group has further streamlined the operations, and imposed tight cost control measures in all applicable areas. Other administrative expenses decreased by 2.6% to HK\$7.4 million (2010: HK\$7.6 million) for the Review Period.

Dividend

The Directors do not recommend the payment of an interim dividends for the three months ended March 31, 2011 (2010: Nil). No dividends were paid during the period.

Outlook

The Group expects a rise in market demand with the anticipated commencement of China Sports Lottery's equipment procurement cycle this year. This should have a positive impact on the Group's manufacturing activities as orders previously deferred are expected to be placed shortly after the new procurement cycle commences.

Sports Lottery retail sales revenues are expected to rise with the anticipated inclusion of a variety of popular game types under Sports Lottery's skill games (similar to fixed odds betting) portfolio. In addition, new marketing and broadcast initiatives in the market are expected to provide additional sales growth. These are positive factors for the Group's venue management consultancy business.

With regard to internet lottery sales, the PRC government has recently issued a pronouncement to invalidate the prior prohibition of sales through the internet. For the present time, this implies that lottery sales via the internet are to be regarded under the overall lottery regulations rather than prohibited under specific regulation, and it is expected that the government is paving the way for orderly development of this sales channel. The Group is carefully monitoring the situation to identify opportunities that could be capitalized upon.

CONDENSED CONSOLIDATED INCOME STATEMENT*For the three months ended March 31, 2011*

		(Unaudited) Three months ended March 31,	
		2011	2010
	Notes	HK\$'000	HK\$'000
Revenue	3	14,010	9,963
Changes in inventories of finished goods and work-in-progress		339	(7,272)
Purchases of inventories and raw materials consumed		(11,068)	(626)
Other income and gains		278	272
Employee benefits costs		(5,852)	(5,570)
Depreciation and amortization		(1,551)	(5,666)
Share of losses of associates		(904)	(71)
Share of losses of jointly controlled entities		(319)	(487)
Other expenses		(7,440)	(7,649)
Finance costs	4	(20,819)	(18,694)
Loss before taxation		(33,326)	(35,800)
Taxation	5	(225)	1,035
Loss for the period		<u>(33,551)</u>	<u>(34,765)</u>
Loss for the period attributable to:			
Owners of the Company		(32,207)	(33,131)
Non-controlling interests		(1,344)	(1,634)
		<u>(33,551)</u>	<u>(34,765)</u>
Loss per share	7		
– Basic and diluted		<u>(HK6.40 cents)</u>	<u>(HK6.60 cents)</u>

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

The quarterly interim financial information has 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**”). The amounts included in the quarterly interim financial report are computed based on the recognition and measurement requirements in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). However, this quarterly interim financial report does not contain sufficient information to constitute an interim financial report as defined in HKAS 34.

The unaudited consolidated financial results have been prepared on a going concern basis. The Group incurred a loss of approximately HK\$33,551,000 for the three months ended March 31, 2011. In preparing the unaudited consolidated financial results, the directors of the Company have reviewed the Group’s financial and liquidity position, taking the following factors into account:

- The possibility of restructuring or replacing the convertible bonds with equity instruments;
- The possibility of restructuring or capitalizing the loan from a related company to equity;
- The possibility of new business opportunities; and
- Cost control measures.

The directors of the Company believe that, taking into account of the above factors, it is appropriate for the Group to prepare the unaudited consolidated financial 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, 2010, 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, 2011. 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 early applied the new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the unaudited consolidated financial results.

(3) REVENUE

An analysis of the Group's revenue for the three months ended March 31, 2011 is as follows:

	Three months ended March 31,	
	2011	2010
	HK\$'000	HK\$'000
Lottery business:		
Provision of management services for distribution of lottery products	3,618	2,354
Manufacturing and sales of lottery terminals and point of sales machines	10,392	7,609
	14,010	9,963

(4) FINANCE COSTS

	Three months ended March 31,	
	2011	2010
	HK\$'000	HK\$'000
Interest on:		
Effective interest expenses on convertible bonds	20,622	17,708
Loan from a related company wholly repayable within five years	197	986
	20,819	18,694

(5) TAXATION

	Three months ended March 31,	
	2011	2010
	HK\$'000	HK\$'000
Enterprise Income Tax of the PRC		
– Current period	225	–
Deferred taxation		
– Current period	–	(1,035)
Tax charge/(credit)	225	(1,035)

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the three months ended March 31, 2011 and its corresponding period in 2010.

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

(6) DIVIDEND

No interim dividends have been paid or declared by the Company during the three months ended March 31, 2011 (2010: Nil).

(7) LOSS PER SHARE

The calculation of basic loss per share for the three months ended March 31, 2011 is based on the unaudited loss attributable to owners of the Company of approximately HK\$32,207,000 (2010: HK\$33,131,000) and on the weighted average number of approximately 502,844,266 (2010: 501,697,675) 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.

∞ (8) 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, 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 arising on translation of foreign operations	-	-	-	-	-	1,386	-	1,386	-	1,386
Loss for the period	-	-	-	-	-	-	(33,131)	(33,131)	(1,634)	(34,765)
Dividend recognized as distribution to non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	(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	(233,833)
As at January 1, 2011 (audited)	5,026	368,923	26,501	3,543	645,492	40,790	(1,465,409)	(375,134)	9,853	(365,281)
Recognition of equity-settled share-based payments	-	-	1,751	-	-	-	-	1,751	-	1,751
Issue of ordinary shares upon exercise of share options	4	41	(17)	-	-	-	-	28	-	28
Exchange differences arising on translation of foreign operations	-	-	-	-	-	2,076	-	2,076	-	2,076
Loss for the period	-	-	-	-	-	-	(32,207)	(32,207)	(1,344)	(33,551)
As at March 31, 2011 (unaudited)	5,030	368,964	28,235	3,543	645,492	42,866	(1,497,616)	(403,486)	8,509	(394,977)

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

During the three months ended March 31, 2011, 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

As at March 31, 2011, the interests of the directors, the chief executive and their respective associates in the shares, underlying shares and debentures or short positions and share options 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
	Beneficial owner	Held by controlled corporation(s)	Total number of shares	
Mr. Chan Sek Keung, Ringo ("Mr. Chan")	18,876,000	34,400,000 (Note 2)	53,276,000	10.59%
Mr. Tsoi, David	976,000	-	976,000	0.19%
Mr. Pang Hing Chung, Alfred	1,500,000	-	1,500,000	0.30%

Notes:

- (1) As at March 31, 2011, the total number of issued shares of the Company was 502,966,933.
- (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	13,354,000	13,354,000
Mr. Moumouris, Christos	Beneficial owner	5,620,000	5,620,000
Mr. Chan Sek Keung, Ringo	Beneficial owner	9,200,000	9,200,000
Mr. Wang, John Peter Ben	Beneficial owner	11,846,000	11,846,000
Mr. Tsoi, David	Beneficial owner	400,000	400,000
Mr. Pang Hing Chung, Alfred	Beneficial owner	400,000	400,000
Mr. So Lie Mo, Raymond	Beneficial owner	400,000	400,000
		<u>41,220,000</u>	<u>41,220,000</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, 2011.

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2011, 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")	-	58,674,619 (Note 2)	58,674,619	11.67%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho")	-	58,674,619 (Note 3)	58,674,619	11.67%
Intralot S.A. Integrated Lottery Systems and Services ("Intralot S.A.")	-	52,973,779 (Note 4)	52,973,779	10.53%
Firich Enterprises Co., Ltd. ("Firich")	2,097,498	31,667,042 (Note 5)	33,764,540	6.71%

(Note 1)

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

Name of shareholder	Number of underlying shares			Approximate percentage of issued share capital of the Company <i>(Note 1)</i>
	Beneficial owner	Held by controlled corporation(s)	Total number of underlying shares	
Melco	-	470,006,742 <i>(Note 2)</i>	470,006,742	93.45%
Mr. Ho	13,354,000 <i>(Note 6)</i>	470,006,742 <i>(Note 3)</i>	483,360,742	96.10%
Intralot S.A.	-	366,376,270 <i>(Note 4)</i>	366,376,270	72.84%
Firich	20,796,765	206,104,195 <i>(Note 5)</i>	226,900,960	45.11%

Notes:

- (1) As at March 31, 2011, the total number of issued shares of the Company was 502,966,933.
- (2) Melco is deemed by the SFO to be interested in 58,674,619 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 58,674,619 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, 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 52,973,779 shares of the Company and 366,376,270 underlying shares from convertible bonds in the Company as described in (7) and (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, 2011, as to principal amount of HK\$399,505,732 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 recognized 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, 2011.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the three months ended March 31, 2011, none of the Directors or their respective associates had any interest 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, 2011.

By order of the Board

MelcoLot Limited

Ko Chun Fung, Henry

Executive Director and Chief Executive Officer

Hong Kong, May 6, 2011

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.