

Interim Report

2011

# MelcoLot Limited

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

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



新濠環彩  
MelcoLot

**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.**

*Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.*

*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 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 report 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 report misleading.*

## MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of MelcoLot Limited (the “**Company**”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended June 30, 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 developed a wide retail presence across several provinces by managing a network of retail outlets for the 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 Korea’s national welfare lottery.

During the Review Period, total revenue of the Group was HK\$33.1 million (2010: HK\$35.3 million), representing a decrease of 6% compared to the same period in 2010. The decrease was mainly due to reduced revenue from the sales of lottery terminals by 16%, amounting to HK\$25.6 million (2010: HK\$30.4 million). This is because the Group adopted a short-term, low pricing strategy in order to maintain market share as the new equipment procurement cycle of China Sports Lottery Administration Centre had not yet been finalized. On the other hand, the revenue from the provision of management services for distribution of lottery products improved by 53%, amounting to HK\$7.5 million (2010: HK\$4.9 million), mainly due to a significant growth in sales of skill game lottery products during the Review Period.

Loss for the period amounted to HK\$71.8 million for the Review Period (2010: HK\$66.2 million), after charging non-cash expenses which include:

- (i) imputed interest on convertible bonds of HK\$42.1 million (2010: HK\$36.1 million) due to the liability component of the convertible bonds carried at amortized cost by using the effective interest method;
- (ii) depreciation and amortization expenses of property, plant and equipment and intangible assets of HK\$3.1 million (2010: HK\$11.3 million); and
- (iii) write-down of inventories of HK\$5.5 million (2010: Nil) relating to aged lottery terminals as the new procurement cycle is expected to be launched later this year.

**Dividend**

The Directors do not recommend the payment of an interim dividend for the six months ended June 30, 2011 (2010: Nil). No dividends were paid during the period.

**Liquidity, Financial Resources and Capital Structure**

During the Review Period, the Group maintained its conservative policies in cash and financial management. The Group generally financed its operations and serviced its debts with internal resources, the bank and other borrowings, a loan from a related company and convertible bonds.

The Group's financial and liquidity position remained healthy during the Review Period. As at June 30, 2011, bank balances and cash, denominated principally in Hong Kong dollars and Renminbi, amounted to HK\$31.5 million (December 31, 2010: HK\$44.0 million). The current ratio (ratio of current assets to current liabilities) was 1.8 as at June 30, 2011 (December 31, 2010: 1.0).

The Group had net liabilities exceeding its assets of HK\$430.5 million as at June 30, 2011 (December 31, 2010: HK\$365.3 million), which was mainly due to the liability component of the convertible bonds amounting to HK\$682.0 million (December 31, 2010: HK\$640.4 million). The convertible bonds, which are held entirely by three strategic shareholders of the Group, are denominated in Hong Kong dollars and bear interest at 0.1% per annum. Maturity dates of the convertible bonds are December 12, 2012 and December 8, 2013. Also, the Group had a loan of HK\$80 million borrowed from a related company, beneficially owned by shareholders of the Company, due on July 14, 2012. The Directors have carefully reviewed the Group's cash position and the cash flow forecast for the next twelve months and believe that the Group is able to meet its financial obligations in full as and when they fall due and balance its overall capital structure through new share issues and the refinancing of debt as necessary.

At June 30, 2011, the Group had no significant capital commitments (December 31, 2010: HK\$11.9 million) contracted but not provided for in the condensed consolidated financial statements.

**Charges on Group Assets**

The convertible bonds of the Company are secured by the shares of certain subsidiaries of the Company as at June 30, 2011.

**Foreign Exchange Exposure**

As at June 30, 2011, all assets and liabilities of the Group were denominated in United States dollars, Hong Kong dollars, Renminbi and Korean Won. During the Review Period, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

**Employee Information**

As at June 30, 2011, the Group comprised a total of 85 full-time employees (December 31, 2010: 91) after re-structuring the operations in the PRC. The Group continues to provide remuneration packages to employees in line with market practices and past performance. In addition to basic remuneration, the Group also provides employees with other benefits such as a mandatory provident fund, medical insurance schemes, share option schemes and staff training programs.

**Contingent Liabilities**

The Group did not have any significant contingent liabilities as at June 30, 2011.

**Outlook**

The commencement of China Sports Lottery's equipment procurement cycle has been delayed significantly over the past few quarters. The current market indication is that the cycle will commence around the third quarter of 2011. Upon commencement of the new cycle, the Group expects that previously deferred orders will be placed and revenues from manufacturing and activities should see a boost.

As indicated in the announcement dated July 27, 2011, the Group intends to carry out a reorganization of its lottery business and while no legally binding contracts have been entered as of the announcement date, various measures are being considered to enhance its internal structure, including a potential reduction of overall liabilities. The Group will fully comply with all disclosure requirements. Included in the reorganization is a greater participation in Beijing Telenet Information Technology Limited ("**Beijing Telenet**"). As disclosed in the previous mentioned announcement, the board of directors of Beijing Telenet have recently voted to approve certain amendments that would result in the Group having much greater participation and control over the financial and operating policies of Beijing Telenet, such that upon completion, Beijing Telenet would be effectively accounted as a subsidiary of the Company. Going forward, these measures are expected to enhance the terminal distribution business of the Group.

The Group is increasing its focus on new media technologies and sales platforms and is pursuing various lottery-related opportunities to capitalize on the rise of the China Lottery market.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2011

	Notes	Three months ended June 30,		Six months ended June 30,	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue	3	19,083	25,315	33,093	35,278
Changes in inventories of finished goods and work-in-progress		(9,905)	11,916	(9,566)	4,644
Purchases of inventories and raw materials consumed		(7,307)	(33,150)	(18,375)	(33,776)
Other income and gains		170	140	448	412
Employee benefits costs		(4,833)	(5,296)	(10,685)	(10,866)
Depreciation and amortization		(1,541)	(5,663)	(3,092)	(11,329)
Share of losses of associates		(1,498)	(267)	(2,402)	(338)
Share of profits (losses) of jointly controlled entities		104	224	(215)	(263)
Other expenses		(11,105)	(6,205)	(18,545)	(13,854)
Finance costs	5	(21,686)	(19,415)	(42,505)	(38,109)
Loss before taxation		(38,518)	(32,401)	(71,844)	(68,201)
Taxation	6	225	977	-	2,012
Loss for the period	8	(38,293)	(31,424)	(71,844)	(66,189)
<b>Other comprehensive income (expense)</b>					
Exchange differences arising on translation of foreign operations		1,384	(4,090)	3,460	(2,704)
Total comprehensive expense for the period		<u>(36,909)</u>	<u>(35,514)</u>	<u>(68,384)</u>	<u>(68,893)</u>
Loss for the period attributable to:					
Owners of the Company		(34,819)	(30,417)	(67,026)	(63,548)
Non-controlling interests		(3,474)	(1,007)	(4,818)	(2,641)
		<u>(38,293)</u>	<u>(31,424)</u>	<u>(71,844)</u>	<u>(66,189)</u>
Total comprehensive expense attributable to:					
Owners of the Company		(33,435)	(34,507)	(63,566)	(66,252)
Non-controlling interests		(3,474)	(1,007)	(4,818)	(2,641)
		<u>(36,909)</u>	<u>(35,514)</u>	<u>(68,384)</u>	<u>(68,893)</u>
<b>Loss per share</b>	9				
- Basic and diluted		<u>(HK6.92 cents)</u>	<u>(HK6.05 cents)</u>	<u>(HK13.32 cents)</u>	<u>(HK12.65 cents)</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at June 30, 2011

		As at June 30, 2011	As at December 31, 2010
		(Unaudited)	(Audited)
	Notes	HK\$'000	HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	10	14,828	9,831
Goodwill		27,903	27,903
Intangible assets		75,950	77,277
Interests in associates		5,855	8,257
Interests in jointly controlled entities		11,683	11,898
Available-for-sale investment		142,302	138,802
		<b>278,521</b>	<b>273,968</b>
<b>Current assets</b>			
Inventories		32,520	41,219
Trade and other receivables	11	38,961	38,251
Amounts due from jointly controlled entities		16,881	33,362
Amount due from a related company			
– due within one year		–	10,503
Amount due from an associate		2,434	1,000
Bank balances and cash		31,542	43,978
		<b>122,338</b>	<b>168,313</b>
<b>Current liabilities</b>			
Trade and other payables	12	53,956	68,208
Amounts due to related companies		10,936	10,540
Amount due to an associate		2,228	6,139
Tax payable		2,256	2,321
Loan from a related company			
– due within one year		–	80,000
		<b>69,376</b>	<b>167,208</b>
<b>Net current assets</b>		<b>52,962</b>	<b>1,105</b>
		<b>331,483</b>	<b>275,073</b>

		<b>As at June 30, 2011</b>	<b>As at December 31, 2010</b>
	<i>Notes</i>	<b>(Unaudited) HK\$'000</b>	<b>(Audited) HK\$'000</b>
<b>Capital and reserves</b>			
Share capital	13	<b>5,030</b>	5,026
Reserves		<b>(440,602)</b>	(380,160)
Equity attributable to owners of the Company		<b>(435,572)</b>	(375,134)
Non-controlling interests		<b>5,035</b>	9,853
Total capital deficiency		<b>(430,537)</b>	(365,281)
<b>Non current liabilities</b>			
Loan from a related company			
– due after one year		<b>80,000</b>	–
Convertible bonds		<b>682,020</b>	640,354
		<b>762,020</b>	640,354
		<b>331,483</b>	275,073



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended June 30, 2011

	Attributable to owners of the Company								
	Share capital	Share premium	Share-based payment reserve	PRC statutory reserves	Convertible bonds equity reserve	Exchange reserve	Accumulated losses		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
As at January 1, 2010 (audited)	5,008	368,695	22,290	3,543	645,492	37,408	(1,304,301)	20,883	(201,182)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(2,704)	-	-	(2,704)
Loss for the period	-	-	-	-	-	-	(63,548)	(2,641)	(66,189)
Total comprehensive income (expense) for the period	-	-	-	-	-	(2,704)	(63,548)	(2,641)	(68,893)
Recognition of equity-settled share-based payments	-	-	2,371	-	-	-	-	-	2,371
Issue of ordinary shares upon exercise of share options	18	228	(89)	-	-	-	-	-	157
Dividend recognized as distribution to non-controlling shareholders of a subsidiary	-	-	-	-	-	-	-	(653)	(653)
As at June 30, 2010 (unaudited)	5,026	368,923	24,572	3,543	645,492	34,704	(1,368,049)	17,589	(288,200)
As at January 1, 2011 (audited)	5,026	368,923	26,501	3,543	645,492	40,790	(1,465,009)	9,853	(365,281)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	3,460	-	-	3,460
Loss for the period	-	-	-	-	-	-	(67,026)	(4,818)	(71,844)
Total comprehensive income (expense) for the period	-	-	-	-	-	3,460	(67,026)	(4,818)	(68,384)
Recognition of equity-settled share-based payments	-	-	3,100	-	-	-	-	-	3,100
Issue of ordinary shares upon exercise of share options	4	41	(17)	-	-	-	-	-	28
As at June 30, 2011 (unaudited)	5,030	368,964	29,584	3,543	645,492	44,250	(1,532,035)	5,035	(430,537)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended June 30, 2011

	<b>Six months ended June 30,</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash used in operating activities	<b>(10,001)</b>	(17,843)
Investing activities		
Deferred proceeds from disposal of subsidiaries	<b>10,625</b>	20,126
Interest received	<b>26</b>	40
Purchase of property, plant and equipment	<b>(7,286)</b>	(567)
Investment in an associate	<b>(3,911)</b>	(3,000)
Advance to an associate	<b>(1,434)</b>	-
Net cash (used in) from investing activities	<b>(1,980)</b>	16,599
Financing activities		
Payment of dividend to non-controlling shareholders of a subsidiary	-	(653)
Interest paid	<b>(443)</b>	(445)
Proceeds from exercise of share options	<b>28</b>	157
Net cash used in financing activities	<b>(415)</b>	(941)
Net decrease in cash and cash equivalents	<b>(12,396)</b>	(2,185)
Cash and cash equivalents at beginning of the period	<b>43,978</b>	61,555
Effect of foreign exchange rate changes	<b>(40)</b>	96
Cash and cash equivalents at end of the period, represented by bank balances and cash	<b>31,542</b>	59,466

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

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules. The amounts included in the condensed consolidated financial statements are computed based on the recognition and measurement requirements in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements have been prepared on a going concern basis. The Group incurred a loss of approximately HK\$71,844,000 for the six months ended June 30, 2011. In preparing the condensed consolidated financial statements, 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 condensed consolidated financial statements on a going concern basis.

**(2) SIGNIFICANT ACCOUNTING POLICIES**

The condensed consolidated financial statements have 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 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 condensed consolidated financial statements.

**(3) REVENUE**

An analysis of the Group's revenue for the three months and the six months ended June 30, 2011 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Provision of management services for distribution of lottery products	<b>3,829</b>	2,526	<b>7,447</b>	4,880
Manufacturing and sales of lottery terminals and point of sales ("POS") machines	<b>15,254</b>	22,789	<b>25,646</b>	30,398
	<b>19,083</b>	25,315	<b>33,093</b>	35,278

**(4) SEGMENT INFORMATION**

The Group's revenue and contribution to loss were mainly derived from provision of management services for distribution of lottery products and manufacturing and sales of lottery terminals and POS machines. The chief operating decision makers treat lottery business as a single reportable segment as a whole and review the consolidated financial information of the Group and for purposes of resource allocation and performance assessment. Accordingly, no segment analysis is presented other than entity-wide disclosures.

The revenue of product and service is set out in note 3.

**Geographical information**

The Group's operations are carried out in the PRC. All the non-current assets (excluding financial instruments) are located in the PRC.

**(5) FINANCE COSTS**

	Three months ended June 30,		Six months ended June 30,	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Effective interest expense on convertible bonds	21,486	18,417	42,108	36,125
Interest expense on loan from a related company	200	998	397	1,984
	<b>21,686</b>	<b>19,415</b>	<b>42,505</b>	<b>38,109</b>

**(6) TAXATION**

	Three months ended June 30,		Six months ended June 30,	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Enterprise Income Tax of the PRC – current period	(225)	58	–	58
Deferred taxation – current period	–	(1,035)	–	(2,070)
Tax (credit)/charge	<b>(225)</b>	<b>(977)</b>	<b>–</b>	<b>(2,012)</b>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the six months ended June 30, 2011 and its corresponding period in 2010.

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

**(7) DIVIDEND**

No interim dividends have been paid or declared by the Company during the six months ended June 30, 2011 (2010: Nil).

**(8) LOSS FOR THE PERIOD**

	Three months ended June 30,		Six months ended June 30,	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss for the period has been arrived at after charging:				
Amortization of intangible assets	663	4,780	1,327	9,562
Depreciation of property, plant and equipment	878	883	1,765	1,767
Staff costs (including Directors' remuneration)				
Salaries and wages	3,484	4,149	7,585	8,495
Share-based payments	1,349	1,147	3,100	2,371
Write-down of inventories	5,477	-	5,477	-
and after crediting:				
Bank interest income	20	15	26	42
Other interest income	-	125	122	370
Other services income	150	-	300	-

**(9) LOSS PER SHARE**

The calculation of basic loss per share for the three months and six months ended June 30, 2011 is based on the unaudited loss attributable to owners of the Company of approximately HK\$34,819,000 and HK\$67,026,000 (2010: HK\$30,417,000 and HK\$63,548,000) and on the weighted average number of approximately 502,966,933 and 503,193,100 (2010: 502,621,933 and 502,162,357) 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.

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

The total cost of additions to property, plant and equipment of the Group during the six months ended June 30, 2011 was HK\$7,286,000 (2010: HK\$567,000). The total carrying amount of write-off of property, plant and equipment during the six months ended June 30, 2011 were HK\$524,000 (2010: HK\$48,000).

**(11) TRADE AND OTHER RECEIVABLES**

The Group generally allows credit periods ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on invoice date at the end of the reporting period:

	<b>As at June 30, 2011</b>	<b>As at December 31, 2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade receivables		
Within 30 days	<b>4,623</b>	5,831
31-90 days	<b>1,616</b>	371
91-180 days	<b>2,487</b>	612
181-365 days	<b>3,002</b>	407
Over 365 days	<b>4,005</b>	6,039
	<b>15,733</b>	13,260
Other receivables	<b>23,228</b>	24,991
	<b>38,961</b>	38,251

Before accepting any new customers, the Group reviews the potential customer's credit quality and defines credit limits by customers. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimize any credit risk associated with these trade debtors.

Included in the Group's trade receivable balances were debtors with aggregate carrying amount of HK\$9,494,000 (December 31, 2010: HK\$7,058,000) which were past due at the end of the reporting period but not considered as impaired. Majority of the trade receivables that were neither past due nor impaired had no default repayment history.

**(12) TRADE AND OTHER PAYABLES**

The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	<b>As at June 30, 2011</b>	<b>As at December 31, 2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade payables within 30 days	<b>41,252</b>	62,220
Other payables	<b>12,704</b>	5,988
	<b>53,956</b>	68,208

**(13) SHARE CAPITAL**

	<u>Number of shares</u>	<u>Amount</u> <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each:		
Authorized:		
At January 1, 2011 and June 30, 2011	2,000,000,000	20,000
Issued and fully paid:		
At January 1, 2011	502,621,933	5,026
Exercise of share options	345,000	4
At June 30, 2011	502,966,933	5,030

**(14) OPERATING LEASE COMMITMENTS**

As at June 30, 2011, the Group had operating lease commitments of approximately HK\$10,765,000 (December 31, 2010: HK\$9,891,000), out of which approximately HK\$4,166,000 was repayable within 1 year (December 31, 2010: HK\$3,202,000).

**(15) EVENTS AFTER THE END OF THE REPORTING PERIOD**

As announced by the Company on July 27, 2011, the board of directors of Beijing Telenet ("**Beijing Telenet Board**") has passed a board resolution to amend the articles of association of Beijing Telenet (the "**Amendments**") so that certain Beijing Telenet Board resolutions can be passed by simple majority votes. Upon the implementation of the Amendments, the Company will have the voting rights to govern those financial and operating policies of Beijing Telenet, which requires simple majority votes of the Beijing Telenet Board. As such, pursuant to the relevant Hong Kong accounting standards, Beijing Telenet would be treated as an indirect non wholly-owned subsidiary of the Company and its financial information can be consolidated into the financial statements of the Company.



**(16) RELATED PARTY TRANSACTIONS**

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

	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	<i>HK\$'000</i>
Sales of lottery terminals and POS machines to a jointly controlled entity	<b>25,633</b>	29,412
Sales of lottery terminals and POS machines to non-controlling shareholders of subsidiaries	<b>13</b>	985
Purchases of materials and unfinished parts from non-controlling shareholders of subsidiaries	<b>20,922</b>	36,896
Purchase of equipment from a substantial shareholder which has significant influence over the Company and its subsidiaries	<b>6,912</b>	–
Service fee expenses paid to substantial shareholders which have significant influence over the Company and its subsidiaries	<b>430</b>	410
Interest income from a company in which a director of the Company has beneficial interest	<b>122</b>	370
Interest expense paid to a company beneficially owned by shareholders of the Company	<b>397</b>	1,984

- b. Compensation of key management personnel

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

	<b>Six months ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	<i>HK\$'000</i>
Short-term benefits	<b>4,339</b>	3,079
Post-employment benefits	<b>30</b>	33
Share-based payments	<b>1,536</b>	1,047
	<b>5,905</b>	4,159

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

During the six months ended June 30, 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## SHARE OPTIONS

The Company, at the general meeting held on April 20, 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").

Details of the movements in the number of share options during the period for both schemes are as follows:

### (a) Pre-IPO share option scheme

<u>Type of participant</u>	<u>Date of grant</u>	<u>Exercisable period</u>	<u>Exercise price per share</u>	<u>Number of share options outstanding as at 1.1.2011 and 6.30.2011</u>
			<i>HK\$</i>	
<b>Director:</b>				
Mr. Chan Sek Keung, Ringo	4.30.2002	11.17.2002 to 4.29.2012	0.55	3,000,000
				<hr/> <hr/>

No option under the pre-IPO share option scheme has been granted, exercised, cancelled or lapsed during the six months ended June 30, 2011.

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 May 17, 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.

**(b) Post-IPO share option scheme**

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			Outstanding at 6.30.2011
				Outstanding at 1.1.2011	Exercised during the period (Note 5)	Lapsed during the period	
<b>Directors:</b>							
Mr. Ko Chun Fung, Henry	3.31.2008 (Note 3)	10.1.2008 to 3.31.2018	0.890	4,354,000	-	-	4,354,000
	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	4,000,000	-	-	4,000,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	5,000,000	-	-	5,000,000
Mr. Moumouris, Christos	2.16.2009 (Note 4)	2.16.2010 to 2.15.2019	0.300	2,120,000	-	-	2,120,000
	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	2,500,000	-	-	2,500,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	1,000,000	-	-	1,000,000
Mr. Chan Sek Keung, Ringo	2.20.2003 (Note 2)	2.20.2004 to 2.19.2013	0.138	1,200,000	-	-	1,200,000
	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	3,000,000	-	-	3,000,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	2,000,000	-	-	2,000,000
Mr. Wang, John Peter Ben	3.31.2008 (Note 3)	10.1.2008 to 3.31.2018	0.890	3,846,000	-	-	3,846,000
	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	3,000,000	-	-	3,000,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	5,000,000	-	-	5,000,000
Mr. Tsoi, David	1.12.2007 (Note 2)	1.12.2008 to 1.11.2017	0.088	187,500	(187,500)	-	-
	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	200,000	-	-	200,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	200,000	-	-	200,000

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			Outstanding at 6.30.2011
				Outstanding at 1.1.2011	Exercised during the period (Note 5)	Lapsed during the period	
Mr. Pang Hing Chung, Alfred	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	200,000	-	-	200,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	200,000	-	-	200,000
Mr. So Lie Mo, Raymond	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	200,000	-	-	200,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	200,000	-	-	200,000
				<u>38,407,500</u>	<u>(187,500)</u>	<u>-</u>	<u>38,220,000</u>
Substantial shareholder: (Note 1)	3.31.2008 (Note 3)	10.1.2008 to 3.31.2018	0.890	4,354,000	-	-	4,354,000
	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	4,000,000	-	-	4,000,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	5,000,000	-	-	5,000,000
				<u>13,354,000</u>	<u>-</u>	<u>-</u>	<u>13,354,000</u>
Employees:	1.12.2007 (Note 2)	1.12.2008 to 1.11.2017	0.088	45,000	(45,000)	-	-
	3.31.2008 (Note 3)	10.1.2008 to 3.31.2018	0.890	7,214,000	-	(39,000)	7,175,000
	2.16.2009 (Note 4)	2.16.2010 to 2.15.2019	0.300	3,200,000	-	-	3,200,000
	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	9,128,000	-	(30,000)	9,098,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	13,390,000	-	(50,000)	13,340,000
				<u>32,977,000</u>	<u>(45,000)</u>	<u>(119,000)</u>	<u>32,813,000</u>

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				Outstanding at 1.1.2011	Exercised during the period (Note 5)	Lapsed during the period	Outstanding at 6.30.2011
Advisors: (Note 1)	1.12.2007 (Note 2)	1.12.2008 to 1.11.2017	0.088	1,387,500	(112,500)	-	1,275,000
	3.31.2008 (Note 3)	10.1.2008 to 3.31.2018	0.890	6,606,000	-	-	6,606,000
	2.16.2009 (Note 4)	2.16.2010 to 2.15.2019	0.300	6,180,000	-	-	6,180,000
	7.10.2009 (Note 4)	7.10.2010 to 7.9.2019	0.367	6,630,000	-	-	6,630,000
	11.18.2010 (Note 3)	5.18.2011 to 11.17.2020	0.152	7,200,000	-	-	7,200,000
					28,003,500	(112,500)	-
				<u>112,742,000</u>	<u>(345,000)</u>	<u>(119,000)</u>	<u>112,278,000</u>

No option has been granted during the six months ended June 30, 2011.

*Notes:*

- (1) These are individuals who rendered consultancy services in respect of the business development to the Group without receiving any compensation. The Group granted share options to them for recognizing their services similar to those rendered by other employees.
- (2) These grants under the post-IPO share option scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of four years, starting from the first anniversary of the grant date at stepped annual increments of 25% of the total options granted.
- (3) These grants under the post-IPO share option scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of one year, starting from six months of the grant date at stepped six months increments of 50% of the total options granted.
- (4) These grants under the post-IPO share option scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of three years, starting from the first anniversary of the grant date at stepped annual increments of 33% of the total options granted.
- (5) In respect of the share options exercised during the period, the weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK\$0.146.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at June 30, 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

<u>Name of Director</u>	<u>Number of shares</u>			<u>Approximate percentage of issued share capital of the Company</u> (Note 1)
	<u>Beneficial owner</u>	<u>Held by controlled corporation(s)</u>	<u>Total number of shares</u>	
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 June 30, 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 June 30, 2011.

**SUBSTANTIAL SHAREHOLDERS**

As at June 30, 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**

<u>Name of shareholder</u>	<u>Number of shares</u>			<u>Approximate percentage of issued share capital of the Company</u> (Note 1)
	<u>Beneficial owner</u>	<u>Held by controlled corporation(s)</u>	<u>Total number of shares</u>	
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%

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

<u>Name of shareholder</u>	<u>Number of underlying shares</u>			<u>Approximate percentage of issued share capital of the Company</u> <i>(Note 1)</i>
	<u>Beneficial owner</u>	<u>Held by controlled corporation(s)</u>	<u>Total number of underlying shares</u>	
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 June 30, 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 June 30, 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 with principal amount of HK\$75,000,000, 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 June 30, 2011.

### **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 interim results for the six months ended June 30, 2011.

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

During the six months ended June 30, 2011, the Company had adopted a code of conduct for directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors confirmed that they had complied with the required standard of dealings and the code of conducts for directors' securities transactions during the six months ended June 30, 2011.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

During the six months ended June 30, 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.

### **CORPORATE GOVERNANCE**

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules, and where appropriate, adopted the recommended best practices throughout the six months ended June 30, 2011.

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

*Executive Director and Chief Executive Officer*

Hong Kong, August 4, 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.*