

Third 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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*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 results of the Company and its subsidiaries (the “**Group**”) for the nine months ended September 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\$48.6 million (2010: HK\$63.7 million), representing a decrease of 24% compared to the same period in 2010. The decrease was mainly due to the reduced revenue from the sales of lottery terminals by 30%, amounting to HK\$38.2 million (2010: HK\$54.7 million). 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 16%, amounting to HK\$10.4 million (2010: HK\$9.0 million), mainly due to a significant growth in sales of lottery products in relation to the distribution of scratch cards during the Review Period.

Loss for the period amounted to HK\$100.0 million for the Review Period (2010: HK\$99.0 million), after charging non-cash expenses which include:

- (i) imputed interest on convertible bonds of HK\$64.8 million (2010: HK\$55.6 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\$5.0 million (2010: HK\$17.0 million); and
- (iii) write-down of inventories of HK\$5.5 million (2010: Nil) relating to aged lottery terminals.

Dividend

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

Outlook

The commencement of China Sports Lottery's equipment procurement cycle has been delayed significantly over the past quarters. The Sports Lottery authority has recently announced bidding procedures which are expected to continue until the end of the first quarter of 2012 and the new procurement cycle can begin only thereafter. The Group has positioned itself to benefit from a potential upswing in the terminal distribution business through conversion of Beijing Telenet Information Technology Ltd. ("**Beijing Telenet**") into a subsidiary. Beijing Telenet is engaged in the distribution of lottery terminals to Sports Lottery authorities in over 20 provinces of the PRC.

As announced on September 19, 2011, the Group has acquired the 20% minority interest in PAL Development Limited ("**PAL**") such that PAL has become an indirect wholly-owned subsidiary of the Company. PAL is an intermediate holding company within the MelcoLot Group for various lottery related businesses in the PRC.

Both of the foregoing conversion and acquisition form part of the ongoing reorganization of the Group's lottery business. On an operational level, the Group has also effectively streamlined its venue management consultancy business to focus on better performing provinces. The Group is maintaining its focus on new media technologies and sales platforms and continues to pursue various lottery related opportunities in this regard to capitalize on the development of the China lottery market.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended September 30, 2011

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Revenue	3	15,516	28,436	48,609	63,714
Changes in inventories of finished goods and work-in-progress		6,091	(3,046)	(3,475)	1,598
Purchases of inventories and raw materials consumed		(16,770)	(21,876)	(35,145)	(55,652)
Other income and gains		3,621	292	4,069	704
Employee benefits costs		(4,559)	(4,571)	(15,244)	(15,437)
Depreciation and amortization		(1,956)	(5,678)	(5,048)	(17,007)
Share of losses of associates		(1,018)	(1,634)	(3,420)	(1,972)
Share of profits (losses) of jointly controlled entities		(265)	257	(480)	(6)
Other expenses		(5,788)	(6,129)	(24,333)	(19,983)
Finance costs	4	(22,923)	(19,780)	(65,428)	(57,889)
Loss before taxation		(28,051)	(33,729)	(99,895)	(101,930)
Taxation	5	(64)	912	(64)	2,924
Loss for the period		(28,115)	(32,817)	(99,959)	(99,006)
Loss for the period attributable to:					
Owners of the Company		(27,069)	(31,591)	(94,095)	(95,139)
Non-controlling interests		(1,046)	(1,226)	(5,864)	(3,867)
		(28,115)	(32,817)	(99,959)	(99,006)
Loss per share	7				
- Basic and diluted		(HK5.38 cents)	(HK6.29 cents)	(HK18.71 cents)	(HK18.94 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. 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\$99,959,000 for the nine months ended September 30, 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 financial information has been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 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 unaudited consolidated financial results.

(3) REVENUE

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

	Three months ended September 30,		Nine months ended September 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	2,986	4,092	10,433	8,972
Manufacturing and sales of lottery terminals and point of sales machines	12,530	24,344	38,176	54,742
	15,516	28,436	48,609	63,714

(4) FINANCE COSTS

	Three months ended September 30,		Nine months ended September 30,	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Effective interest expenses on convertible bonds	22,722	19,456	64,830	55,581
Interest expenses on loan from a related company	201	324	598	2,308
	22,923	19,780	65,428	57,889

(5) TAXATION

	Three months ended September 30,		Nine months ended September 30,	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Enterprise Income Tax of the PRC				
– current period	64	123	64	181
Deferred taxation				
– current period	–	(1,035)	–	(3,105)
Tax charge/(credit)	<u>64</u>	<u>(912)</u>	<u>64</u>	<u>(2,924)</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the nine months ended September 30, 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 nine months ended September 30, 2011 (2010: Nil).

(7) LOSS PER SHARE

The calculation of basic loss per share for the three months and nine months ended September 30, 2011 is based on the unaudited loss attributable to owners of the Company of approximately HK\$27,069,000 and HK\$94,095,000 (2010: HK\$31,591,000 and HK\$95,139,000) and on the weighted average number of approximately 502,966,933 and 502,926,493 (2010: 502,621,933 and 502,317,232) ordinary shares in issue during the period respectively.

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	Share premium	Share-based payment reserve	PRC statutory reserves	Other reserve	Convertible bonds equity reserve	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at January 1, 2010 (audited)	5,008	368,995	22,290	3,543	-	645,492	37,400	(1,304,501)	(222,065)	20,883	(201,182)
Recognition of equity-settled share-based payments	-	-	3,077	-	-	-	-	-	3,077	-	3,077
Issue of ordinary shares upon exercise of share options	18	228	(89)	-	-	-	-	-	157	-	157
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	764	(95,139)	764	-	764
Loss for the period	-	-	-	-	-	-	-	(95,139)	(95,139)	(3,867)	(99,006)
Dividend recognized as distribution to non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	(653)	(653)
As at September 30, 2010 (unaudited)	5,026	368,923	25,278	3,543	-	645,492	38,172	(1,399,640)	(313,206)	16,363	(296,843)
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	(365,261)
Recognition of equity-settled share-based payments	-	-	3,811	-	-	-	-	-	3,811	-	3,811
Issue of ordinary shares upon exercise of share options	4	41	(17)	-	-	-	-	-	28	-	28
Non-controlling interest arising from the acquisition of Being Teletet	-	-	-	-	-	-	-	-	-	13,895	13,895
Difference arising on the acquisition of additional interest in PAL	-	-	-	-	(3,494)	-	-	-	(3,494)	3,244	(250)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	784	(94,095)	784	-	784
Loss for the period	-	-	-	-	-	-	-	(94,095)	(94,095)	(5,864)	(99,959)
As at September 30, 2011 (unaudited)	5,030	368,964	30,295	3,543	(3,494)	645,492	41,574	(1,559,504)	(465,100)	21,128	(446,972)

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

During the nine months ended September 30, 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 September 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 the 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 (Note 1)
	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 September 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, the 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 September 30, 2011.

SUBSTANTIAL SHAREHOLDERS

As at September 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>
	<u>Beneficial owner</u>	<u>Held by controlled corporation(s)/ associate</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%

(Note 1)

Name of shareholder	Number of shares			Approximate percentage of issued share capital of the Company (Note 1)
	Beneficial owner	Held by controlled corporation(s)/ associate	Total number of shares	
Intralot S.A. Integrated Lottery Systems and Services ("Intralot S.A.")	-	52,973,779 (Note 4)	52,973,779	10.53%
Crystal Advantage Co., Ltd. ("Crystal")	-	20,787,042 (Note 5)	20,787,042	4.13%
Mr. Ding Jingge ("Mr. Ding")	-	43,455,042 (Note 6)	43,455,042	8.64%
Firich Enterprises Co., Ltd. ("Firich")	2,097,498	10,880,000 (Note 7)	12,977,498	2.58%

(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 (Note 1)
	Beneficial owner	Held by controlled corporation(s)	Total number of underlying shares	
Melco	-	470,006,742 (Note 2)	470,006,742	93.45%
Mr. Ho	13,354,000 (Note 8)	470,006,742 (Note 3)	483,360,742	96.10%
Intralot S.A.	-	366,376,270 (Note 4)	366,376,270	72.84%
Crystal	-	206,104,195 (Note 5)	206,104,195	40.98%

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	
Mr. Ding	-	206,104,195 <i>(Note 6)</i>	206,104,195	40.98%
Firich	20,796,765	-	20,796,765	4.13%

Notes:

- (1) As at September 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 (9) 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 (9) 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 (9) and (10) below by virtue of its indirect holding of its wholly-owned subsidiaries, Intralot Holdings International Limited and Intralot International Limited.
- (5) Crystal is deemed by the SFO to be interested in 20,787,042 shares of the Company and 206,104,195 underlying shares from convertible bonds in the Company as described in (9) below by virtue of its direct holding of its wholly-owned subsidiary, Global Crossing Holdings Ltd.

- (6) Mr. Ding is deemed by the SFO to be interested in 20,787,042 shares of the Company and 206,104,195 underlying shares from convertible bonds in the Company as described in (9) below by virtue of his controlling interests in Crystal and his indirect holding of Global Crossing Holdings Ltd. Mr. Ding is also deemed by the SFO to be interested in 22,668,000 shares of the Company held by his spouse.
- (7) Firich is deemed by the SFO to be interested in 10,880,000 shares of the Company by virtue of its direct holding of its wholly-owned subsidiary, Toprich Company Limited.
- (8) 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.
- (9) 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 September 30, 2011, as to principal amount of HK\$399,505,732 by Melco LottVentures Holdings Limited, HK\$175,188,566 by Global Crossing Holdings Ltd., HK\$17,677,251 by Firich and the balance of HK\$14,428,451 by Intralot International Limited.
- (10) 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 September 30, 2011.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the nine months ended September 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.

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 nine months ended September 30, 2011.

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

Executive Director and Chief Executive Officer

Hong Kong, November 8, 2011

As at the date of this report, the Board consists of two executive Directors, namely Mr. Ko Chun Fung, Henry and Mr. Mournouris, 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.