

MelcoLot Limited

(incorporated in the Cayman Islands with limited liability)

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

First Quarter Report

2012



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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 three months ended 31 March 2012 (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). 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\$10.0 million (2011: HK\$14.0 million), representing a decrease of 29% compared to the same period in 2011. The decrease was mainly due to the reduced revenue from the sales of lottery terminals by 24%, amounting to HK\$7.9 million (2011: HK\$10.4 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 (the “**CSLA**”) had not yet been finalized. The revenue from the provision of management services for distribution of lottery products reduced by 42%, amounting to HK\$2.1 million (2011: HK\$3.6 million), due to the decrease in number of retail outlets in PRC during the Review Period.

Loss for the period amounted to HK\$36.5 million for the Review Period (2011: HK\$33.6 million), after charging non-cash expenses which include:

- (i) imputed interest on convertible bonds of HK\$24.3 million (2011: HK\$20.6 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\$1.0 million (2011: HK\$1.6 million).

Dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2012 (2011: Nil). No dividends were paid during the period.

Outlook

China lottery sales crossed RMB200 billion in 2011 and dynamic growth for the market is expected from paperless channels, skill games and video lottery terminals. Meanwhile, the operations of many lottery websites have been severely impacted by recent regulations pending approvals from the regulatory authorities. Going forward, it is expected that growth in the mobile and online lottery channels will be increasingly and better regulated leading to the orderly development of the market.

The Group is closely monitoring the developments in paperless channels and will apply for licences in accordance with regulations as and when announced. The Group will continue to stay focused on opportunities to operate in regulated sectors of the China lottery market.

The new procurement cycle of the CSLA has not yet commenced. However, the application and review process is underway, and is expected to be completed in the second half of 2012. The approval of new models under the new procurement cycle is expected to provide a boost to demand as orders have been held back by provincial authorities in anticipation of the new procurement cycle.

CONDENSED CONSOLIDATED INCOME STATEMENT*For the three months ended 31 March 2012*

		Three months ended	
		31 March	
		2012	2011
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	9,991	14,010
Changes in inventories of finished goods and work-in-progress		1,367	339
Purchases of inventories and raw materials consumed		(10,477)	(11,068)
Other income and gains		158	278
Employee benefits costs		(4,478)	(5,852)
Depreciation and amortization		(1,046)	(1,551)
Share of results of associates		(732)	(904)
Share of results of jointly controlled entities		-	(319)
Other expenses		(6,782)	(7,440)
Finance costs	4	(24,517)	(20,819)
Loss before taxation		(36,516)	(33,326)
Taxation	5	-	(225)
Loss for the period		(36,516)	(33,551)
Loss for the period attributable to:			
Owners of the Company		(35,164)	(32,207)
Non-controlling interests		(1,352)	(1,344)
		(36,516)	(33,551)
Loss per share	7		
– Basic and diluted		(HK6.99 cents)	(HK6.40 cents)

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 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* (“**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 Company and its subsidiaries (the “**Group**”) incurred a loss of approximately HK\$36,516,000 for the three months ended 31 March 2012.

To deal with this financing issue, the Company intended to carry out a reorganization of the Group’s lottery business. The Company entered into negotiations with a number of parties, together with all substantial shareholders of the Company defined under the Securities and Futures Ordinance (the “**Substantial Shareholders**”), in relation to its ongoing group reorganization, which included among other matters, (i) very substantial disposals and repurchases of certain convertible bonds issued by the Company to certain Substantial Shareholders, each of the repurchases may constitute a share repurchase under the Hong Kong Code on Share Repurchases, (ii) an open offer, (iii) special deals and a whitewash waiver under the Hong Kong Code on Takeovers and Mergers, and (iv) the proposed increase in the authorized share capital of the Company. No agreements have yet been reached as at the date these unaudited consolidated financial results are authorized for issuance.

The Company has obtained assurances from its Substantial Shareholders that it is their policy to provide support and assistance as may be required to enable the Group to maintain capital and liquidity levels at levels sufficient to meet its obligations. Furthermore, the holders of the Company’s convertible bonds have agreed not to request cash redemption of those bonds on or before the maturity dates unless the Group has the necessary financial resources available for cash redemption to occur. In reviewing the Group’s current and future financial position, the Directors of the Company have considered the following factors:

- the agreement by the bondholders not to request cash redemption of the convertible bonds on or before the maturity dates unless the Group has the necessary financial resources available for cash redemption to occur;
- the likelihood of concluding the very substantial disposals and repurchases of certain convertible bonds;
- the possibility of making an open offer;

- the potential for restructuring or capitalizing of the loan from a related company beneficially owned by certain Substantial Shareholders to equity, the repayment date of which has been further extended one year to 14 July 2013 in the Review Period; and
- the possibility of new business opportunities described above.

In light of the matters set out in the preceding paragraphs, the Directors of the Company have prepared the unaudited consolidated financial results on a going concern basis.

(2) SIGNIFICANT ACCOUNTING POLICIES

The quarterly interim report has been prepared on the historical cost basis. The accounting policies adopted are consistent with those followed in the preparation of the Group's financial statements for the year ended 31 December 2011, 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 1 January 2012. 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 ended 31 March 2012 is as follows:

	Three months ended	
	31 March	
	2012	2011
	HK\$'000	<i>HK\$'000</i>
Lottery business:		
Provision of services and solutions for distribution of lottery products	2,071	3,618
Manufacturing and sales of lottery terminals	7,920	10,392
	9,991	14,010

(4) FINANCE COSTS

	Three months ended 31 March	
	2012	2011
	HK\$'000	HK\$'000
Interest on:		
Effective interest expenses on convertibles bonds	24,318	20,622
Loan from a related company wholly repayable within five years	199	197
	24,517	20,819

(5) TAXATION

	Three months ended 31 March	
	2012	2011
	HK\$'000	HK\$'000
Enterprise Income Tax of the PRC		
– Current period	–	225
Tax charge	–	225

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the three months ended 31 March 2012 and its corresponding period in 2011.

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 31 March 2012 (2011: Nil).

(7) LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2012 is based on the unaudited loss attributable to owners of the Company of approximately HK\$35,164,000 (2011: HK\$32,207,000) and on the weighted average number of approximately 502,936,686 (2011: 502,844,266) 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							Total HK\$'000				
	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		Non-controlling interests HK\$'000					
					Other reserves HK\$'000	Exchange reserve HK\$'000			Accumulated losses HK\$'000	Sub-total HK\$'000		
As at 1 January 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
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)	(1,344)	(33,551)
As at 31 March 2011 (unaudited)	5,030	368,964	28,235	3,543	-	645,492	42,866	(1,497,616)	(403,486)	8,509	(394,977)	
As at 1 January 2012 (audited)	5,030	368,963	30,783	3,543	(4,922)	645,492	6,870	(1,671,164)	(615,405)	24,900	(590,505)	
Recognition of equity-settled share-based payments	-	-	237	-	-	-	-	-	-	237	-	237
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	1,735	-	-	1,735	(6)	1,729
Loss for the period	-	-	-	-	-	-	-	(35,164)	(35,164)	(1,352)	(1,352)	(36,516)
As at 31 March 2012 (unaudited)	5,030	368,963	31,020	3,543	(4,922)	645,492	8,605	(1,706,328)	(648,597)	23,542	(625,055)	

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

During the three months ended 31 March 2012, 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 IN SHARES AND SHARE OPTIONS

As at 31 March 2012, the interests of the Directors, the chief executive and their respective associates in the shares and share options of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (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 the issued share capital of the Company
	Beneficial owner	Held by controlled corporation(s)	Total number of shares	
Mr. Chan Sek Keung, Ringo	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 31 March 2012, the total number of the issued shares of the Company was 502,966,933.
- (2) Mr. Chan Sek Keung, Ringo 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 share options 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. 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
Mr. Moumouris, Christos (resigned on 23 April 2012)	Beneficial owner	5,620,000	5,620,000
		<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 31 March 2012.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2012, 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 the issued share capital of the Company <i>(Note 1)</i>
	Beneficial owner	Held by controlled corporation(s)	Total number of shares	
Melco International Development Limited ("Melco")	-	58,674,619 <i>(Note 2)</i>	58,674,619	11.67%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho")	-	58,674,619 <i>(Note 3)</i>	58,674,619	11.67%
Intralot S.A. Integrated Lottery Systems and Services ("Intralot S.A.")	-	52,973,779 <i>(Note 4)</i>	52,973,779	10.53%
Mr. Chang Tung-Bing ("Mr. Chang")	-	20,787,042 <i>(Note 5)</i>	20,787,042	4.13%
Firich Enterprises Co., Ltd. ("Firich")	2,097,498	10,880,000 <i>(Note 6)</i>	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 the issued share capital of the Company <i>(Note 1)</i>
	Beneficial owner	Held by controlled corporation(s)	Total number of underlying shares	
Melco	-	470,006,743 <i>(Note 2)</i>	470,006,743	93.45%
Mr. Ho	13,354,000 <i>(Note 7)</i>	470,006,743 <i>(Note 3)</i>	483,360,743	96.10%
Intralot S.A.	-	366,376,270 <i>(Note 4)</i>	366,376,270	72.84%
Mr. Chang	-	206,104,195 <i>(Note 5)</i>	206,104,195	40.98%
Firich	20,796,766	-	20,796,766	4.13%

Notes:

- (1) As at 31 March 2012, the total number of the 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 470,006,743 underlying shares from convertible bonds in the Company as described in (8) 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 470,006,743 underlying shares from convertible bonds in the Company as described in (8) 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 (8) and (9) below by virtue of its indirect holding of its wholly owned subsidiaries, Intralot Holdings International Limited and Intralot International Limited.

- (5) Mr. Chang 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 (8) below by virtue of his direct holding in the entire share capital of Universal Rich Holdings Limited and its wholly owned subsidiary, Global Crossing Holdings Ltd. Pursuant to a sale and purchase agreement dated 15 December 2011, Universal Rich Holdings Limited acquired the entire share capital of Global Crossing Holdings Ltd. from Firich.
- (6) 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.
- (7) 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.
- (8) On 13 December 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 13 December 2012. Power Way Group Limited had subsequently distributed all Convertible Bonds I to its shareholders, and 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, after several transfers, as at 31 March 2012.
- (9) Pursuant to an agreement dated 7 September 2008 (as amended by a supplemental agreement dated 26 September 2008) entered into between the Company and Intralot International Limited, the 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 9 December 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 9 December 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 31 March 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the three months ended 31 March 2012, 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 31 March 2012.

By Order of the Board

MelcoLot Limited

Ko Chun Fung, Henry

Executive Director and Chief Executive Officer

Hong Kong, 14 May 2012

As at the date of this report, the Board consists of two Executive Directors, namely Mr. Ko Chun Fung, Henry and Mr. Chrysafidis, Evangelos, two Non-executive Directors, namely Mr. Chan Sek Keung, Ringo (Chairman) 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.