

MelcoLot Limited

(incorporated in the Cayman Islands with limited liability)

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

Third Quarter Report

2012



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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 nine months ended 30 September 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 lottery terminals for China Sports Lottery Administration Centre (the “**CSLA**”). The Group has developed a wide retail presence across several provinces by managing a network of retail outlets for the sale of lottery tickets. In addition to being the PRC licence holder for Intralot S.A. Integrated Lottery Systems and Services’ world leading lottery technologies currently working for China Welfare Lottery Issuance Centre on the upgrade project of a high-frequency lottery game in Chongqing of the PRC, 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\$35.4 million (2011: HK\$48.6 million), represented a decrease of 27% compared to the same period in 2011. The decrease was mainly due to the reduced revenue from the manufacturing and sales of lottery terminals by 17%, amounted to HK\$31.7 million (2011: HK\$38.2 million). The Group adopted a short-term, low pricing strategy in order to maintain market share as the new equipment procurement cycle of CSLA had not yet been finalized. The revenue from the provision of services and solutions for distribution of lottery products reduced by 64%, amounted to HK\$3.7 million (2011: HK\$10.4 million), due to the decrease in number of retail outlets in the PRC during the Review Period.

Loss for the period amounted to HK\$114.9 million for the Review Period (2011: HK\$100.0 million), mainly because of the non-cash imputed interest on convertible bonds of HK\$76.1 million (2011: HK\$64.8 million) arising from the liability component of the convertible bonds carried at amortized cost by using the effective interest method.

Dividend

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2012 (2011: Nil). No dividends were paid during the Review Period.

Significant Events

- (i) On 26 June 2012, the Group and Intralot International Limited entered into the sale and purchase agreement (the “**Intralot Agreement**”) in relation to the disposal of the entire issued capital of Gain Advance Group Limited and the 49% of the entire issued capital of Precious Success Holdings Limited for a consideration of HK\$277,175,310, and the repurchase of the 0.1% convertible bond due on 9 December 2013 in the principal amount of HK\$277,175,310 by the Company for the same consideration (the “**Intralot Disposal**”). The considerations payable under the Intralot Agreement shall be set off against each other at completion.
- (ii) On 26 June 2012, the Company also entered into the sale and purchase agreement with Global Crossing Holdings Ltd. (the “**GCH Agreement**”) in relation to the disposal of the 60% of the entire issued capital of Oasis Rich International Ltd. (“**Oasis Rich**”) beneficially owned by the Company for a consideration of HK\$175,188,566 and the repurchase of the 0.1% convertible bond due on 13 December 2012 in the principal amount of HK\$175,188,566 by the Company for the same consideration (the “**GCH Disposal**”). The considerations payable under the GCH Agreement shall be set off against each other at completion.
- (iii) On 13 August 2012, the Group entered into an unconditional exclusivity undertaking with Wu Sheng Computer Technology (Shanghai) Co., Ltd., a wholly owned subsidiary of Oasis Rich, and a conditional exclusivity undertaking with Beijing Intradak System Technology Co., Ltd., respectively, to secure the supply of the lottery terminals and the business of the Group after the disposal of Oasis Rich.
- (iv) The Company proposed the open offer (the “**Open Offer**”, together with the Intralot Disposal and The GCH Disposal, the “**Transactions**”) to raise not more than approximately HK\$117.7 million, before expenses, by issuing not more than 1,508,900,799 offer shares (assuming all eligible shareholders of the Company take up their assured entitlements under the Open Offer) at a price of HK\$0.078 per offer share on the basis of three offer shares for every existing share of the Company.

- (v) The Board further proposed to increase the authorized share capital of the Company from HK\$20,000,000 to HK\$55,000,000 by the creation of additional 3,500,000,000 unissued shares which will rank pari passu in all respects with the existing issued shares of the Company for the issuance of the Open Offer.

Details of the above transactions are disclosed in the circular of the Company dated 26 September 2012 and the prospectus dated 24 October 2012. All of the ordinary resolutions approving the Transactions were duly passed at the extraordinary general meeting of the Company held on 15 October 2012.

The Transactions are expected to result in substantial debt reduction of convertible bonds in the principal amount of HK\$452,363,876 and reduce the overall liabilities of the Group. The Company intends to use the net proceeds from the Open Offer to repay the loan from a related company. The remaining amount of the net proceeds from the Open Offer, if any, will be used as additional working capital to strengthen the Company's financial position and to develop its lottery business, including but not limited to, system upgrade for a high-frequency lottery game system in Chongqing, the development of its paperless lottery sales channels, such as mobile network and/or internet.

The expected completion date of the Transactions is 12 November 2012. The Board wishes to emphasize that the completions of the Transactions are inter-conditional upon each other, which in turn are subject to the conditions provided therein the Intralot Agreement, the GCH Agreement and the Open Offer. As such, there is no assurance that the completions of the Transactions will proceed. Further announcement will be made by the Company upon completions of the Transactions.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended 30 September 2012

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2012 (Unaudited)	2011 (Unaudited)	2012 (Unaudited)	2011 (Unaudited)
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	3	15,462	15,516	35,380	48,609
Changes in inventories of finished goods and work-in-progress		(4,342)	6,091	3,202	(3,475)
Purchases of inventories and raw materials consumed		(1,850)	(16,770)	(30,652)	(35,145)
Other income and gains		157	3,621	474	4,069
Employee benefits costs		(3,761)	(4,559)	(12,643)	(15,244)
Depreciation and amortization		(713)	(1,956)	(2,414)	(5,048)
Share of results of associates		(545)	(1,018)	(1,992)	(3,420)
Share of results of jointly controlled entities		-	(265)	-	(480)
Other expenses		(4,996)	(5,788)	(29,215)	(24,333)
Finance costs	4	(26,633)	(22,923)	(76,699)	(65,428)
Loss before taxation		(27,221)	(28,051)	(114,559)	(99,895)
Taxation	5	(314)	(64)	(351)	(64)
Loss for the period		(27,535)	(28,115)	(114,910)	(99,959)
Loss for the period attributable to:					
Owners of the Company		(26,292)	(27,069)	(108,527)	(94,095)
Non-controlling interests		(1,243)	(1,046)	(6,383)	(5,864)
		(27,535)	(28,115)	(114,910)	(99,959)
Loss per share	7				
Basic and diluted		(HK5.23 cents)	(HK5.38 cents)	(HK21.58 cents)	(HK18.71 cents)

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

The condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules. The amounts included in this quarterly interim financial information are computed based on the recognition and measurement requirements in accordance with Hong Kong Accounting Standard 34, *Interim Financial Reporting* (“**HKAS 34**”). However this quarterly interim financial information does not contain sufficient information to constitute an interim financial report as defined in HKAS 34.

In preparing the condensed consolidated financial information, the directors of the Company have taken into consideration that the Group recorded recurring losses during the period. In particular, the Group incurred a loss of approximately HK\$114,910,000 during the nine months ended 30 September 2012.

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 proposed very substantial disposals and repurchases of certain convertible bonds;
- the proposed open offer;
- the proposed repayment of the loan from a related company beneficially owned by certain substantial shareholders of the Company defined under the Securities and Futures Ordinance (the “**Substantial Shareholders**”) by using the net proceeds from the proposed open offer; and
- the possibility of new business opportunities.

The directors of the Company have prepared the condensed consolidated financial information on a going concern basis because the Company has obtained assurances from its Substantial Shareholders that it is their intention to provide support and assistance as may be required to enable the Group to maintain capital and liquidity level sufficient to meet its obligations.

(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 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 Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. The application of these new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in this condensed consolidated financial information and/or disclosures set out in this condensed consolidated financial information.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of those new and revised HKFRSs will have no material impact on the condensed consolidated financial information.

(3) REVENUE

An analysis of the Group's revenue for the three months and the nine months ended 30 September 2012 is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision of services and solutions for distribution of lottery products	422	2,986	3,664	10,433
Manufacturing and sales of lottery terminals	15,040	12,530	31,716	38,176
	15,462	15,516	35,380	48,609

(4) FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Interest on:				
Effective interest expenses on convertible bonds	26,432	22,722	76,099	64,830
Loan from a related company wholly repayable within five years	201	201	600	598
	<u>26,633</u>	<u>22,923</u>	<u>76,699</u>	<u>65,428</u>

(5) TAXATION

Taxation represented Enterprise Income Tax of the PRC charged in profit or loss for the periods.

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the nine months ended 30 September 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 had been paid or declared by the Company during the nine months ended 30 September 2012 (2011: Nil).

(7) LOSS PER SHARE

The calculation of basic loss per share for the three months and nine months ended 30 September 2012 is based on the unaudited loss attributable to owners of the Company of approximately HK\$26,292,000 and HK\$108,527,000 (2011: HK\$27,069,000 and HK\$94,095,000) and on the weighted average number of approximately 502,936,686 (2011: 502,966,933 and 502,926,493) ordinary shares in issue during the period.

The computation of the 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		Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
						equity reserve	HK\$'000					
At 1 January 2011 (audited)	5,026	368,823	26,501	3,543	-	645,492	40,790	(1,165,409)	(275,134)	9,853	(365,251)	
Exchange differences arising on translation	-	-	-	-	-	-	785	-	785	-	785	
Loss for the period	-	-	-	-	-	-	-	(94,095)	(94,095)	(6,864)	(99,959)	
Recognition of equity-settled share-based payments	-	-	3,811	-	-	-	-	-	3,811	-	3,811	
Issue of ordinary shares upon exercise of share options	4	40	(17)	-	-	-	-	-	27	-	27	
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	-	13,895	13,895	
Acquisition of additional interests in subsidiaries	-	-	-	-	(3,494)	-	-	-	(3,494)	3,244	(250)	
At 30 September 2011 (unaudited)	5,030	368,963	30,295	3,543	(3,494)	645,492	41,575	(1,559,504)	(468,100)	21,128	(446,972)	
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	(591,505)	
Exchange differences arising on translation	-	-	-	-	-	-	1,329	-	1,329	3	1,332	
Loss for the period	-	-	-	-	-	-	-	(108,527)	(108,527)	(6,393)	(114,910)	
Recognition of equity-settled share-based payments	-	-	460	-	-	-	-	-	460	-	460	
At 30 September 2012 (unaudited)	5,030	368,963	31,243	3,543	(4,922)	645,492	8,199	(1,779,691)	(722,143)	18,520	(705,623)	

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

During the nine months ended 30 September 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 30 September 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 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 30 September 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. Chrysafidis, Evangelos	Beneficial owner	1,000,000	1,000,000
Mr. Chan Sek Keung, Ringo	Beneficial owner	6,200,000	6,200,000
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>33,600,000</u>	<u>33,600,000</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 30 September 2012.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 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

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

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	
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 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 30 September 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 30 September 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 30 September 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the nine months ended 30 September 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 nonexecutive Directors of the Company. The audit committee has reviewed the Group's unaudited condensed consolidated financial information for the nine months ended 30 September 2012.

By Order of the Board

MelcoLot Limited

Ko Chun Fung, Henry

Executive Director and Chief Executive Officer

Hong Kong, 5 November 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.