

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
2013



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 presents the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the three months ended 31 March 2013 as follows:

Business Review

The Group is engaged in the provision of lottery-related technologies, systems and solutions in the People’s Republic of China (the “**PRC**”). It is a recognized distributor of high quality, versatile lottery terminals for the China Sports Lottery Administration Centre, which is the exclusive sports lottery operator in the PRC. The terminal distribution business is our major revenue generator and contributed to approximately 92% of the Group’s revenue for the three months ended 31 March 2013.

The Group has also developed a wide presence by managing a network of retail outlets across the PRC and a tele-betting system in Shandong Province for the distribution of lottery scratch cards and computer-generated tickets. As the license holder for Intralot S.A.’s world leading lottery technologies, the Group provides a multimedia content distribution system for the high frequency game, “Shi Shi Cai”, for Chongqing municipality’s China Welfare Lottery Management Center.

We believe that China is poised to become the world’s largest lottery market in the near future and is currently second only to the United States in terms of sales volume. As the popularity of both internet and mobile platforms continue to grow, the paperless approach to the distribution of lottery tickets is undoubtedly an attractive area for expansion. We are closely monitoring the development of this rapidly growing market in the PRC. At the same time, we continue to explore other business opportunities for development that could support our goal of maximizing long-term shareholder value.

Financial Review

Revenue of the Group for the three months ended 31 March 2013 was HK\$10.7 million which is an increase of approximately 7% as compared with HK\$10.0 million for the corresponding period in 2012.

The Group’s other expenses decreased from HK\$6.8 million for the three months ended 31 March 2012 to HK\$1.4 million for the corresponding period in year 2013. The 80% decrease was mainly attributable to tight cost control measures in overheads.

Finance costs of the Group decreased by approximately 93% from HK\$24.5 million for the three months ended 31 March 2012 to HK\$1.8 million for the corresponding period in 2013. This decrease was primarily attributable to the repurchases and expiry of convertible bonds during the group restructuring in late 2012, which terminated the non-cash imputed interest arising from convertible bonds.

As a result of the aforementioned matters, the Group's net loss for the three months ended 31 March 2013 was HK\$5.5 million, representing a decrease of approximately 85% as compared with a loss of HK\$36.5 million for the corresponding period in year 2012.

Dividend

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2013 (2012: Nil). No dividends were paid during the period.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2013

		Three months ended	
		31 March	
		2013	2012
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Revenue	3	10,727	9,991
Changes in inventories of finished goods and work-in-progress		–	1,367
Purchases of inventories and raw materials consumed		(9,212)	(10,477)
Other income and gains		154	158
Employee benefits costs		(3,173)	(4,478)
Depreciation and amortization		(483)	(1,046)
Share of results of associates		(307)	(732)
Other expenses		(1,360)	(6,782)
Finance costs	4	(1,779)	(24,517)
Loss before taxation		(5,433)	(36,516)
Taxation	5	(29)	–
Loss for the period		(5,462)	(36,516)
Loss for the period attributable to:			
Owners of the Company		(4,513)	(35,164)
Non-controlling interests		(949)	(1,352)
		(5,462)	(36,516)
Loss per share	7		
– Basic and diluted		(HK0.20 cents)	(HK6.99 cents)

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

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.

(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 2012, 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 2013. 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 ended 31 March 2013 is as follows:

	Three months ended 31 March	
	2013	2012
	HK\$’000	HK\$’000
Lottery business:		
Manufacturing and sales and trading of lottery terminals	9,917	7,920
Provision of services and solutions for distribution of lottery products	810	2,071
	10,727	9,991

(4) FINANCE COSTS

	Three months ended	
	31 March	
	2013	2012
	HK\$'000	<i>HK\$'000</i>
Interest on:		
Amount due to immediate holding company	1,779	–
Effective interest expenses on convertibles bonds	–	24,318
Loan from a related company wholly repayable within five years	–	199
	1,779	24,517

(5) TAXATION

	Three months ended	
	31 March	
	2013	2012
	HK\$'000	<i>HK\$'000</i>
Enterprise Income Tax of the PRC		
– Current period	29	–
Tax charge	29	–

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the three months ended 31 March 2013 and its corresponding period in 2012.

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 three months ended 31 March 2013 (2012: Nil).

(7) LOSS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2013 is based on the unaudited loss attributable to owners of the Company of approximately HK\$4,513,000 (2012: HK\$35,164,000) and on the weighted average number of approximately 2,308,988,849 (2012: 502,936,686) ordinary shares in issue during the period.

The computation of diluted loss per share does not include the Company's outstanding share options since their assumed 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		Exchange reserve HK\$'000	Accumulated losses HK\$'000		Sub-total HK\$'000	Non-controlling interests HK\$'000
					Other reserves HK\$'000	HK\$'000					
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	-	-	-	-	-	-	1,735	-	1,735	(6)	1,729
Loss for the period	-	-	-	-	-	-	-	(35,164)	(35,164)	(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)	(646,597)	23,542	(625,055)
As at 1 January 2013 (audited)	22,886	851,771	30,832	-	(4,922)	-	3,677	(1,137,108)	(232,864)	11,907	(220,957)
Issue of ordinary shares upon exercise of share options	275	7,252	(2,977)	-	-	-	-	-	4,550	-	4,550
Exchange differences arising on translation	-	-	-	-	-	-	(875)	-	(875)	14	(861)
Loss for the period	-	-	-	-	-	-	-	(4,513)	(4,513)	(949)	(5,462)
As at 31 March 2013 (unaudited)	23,161	859,023	27,855	-	(4,922)	-	2,802	(1,141,621)	(233,702)	10,972	(222,730)

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

During the three months ended 31 March 2013, 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 2013, 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:

(I) Long position in the shares and share options of the Company

(a) Ordinary shares of HK\$0.01 each of the Company ("Share(s)")

<u>Name of Director</u>	<u>Capacity</u>	<u>Number of Shares held</u>	<u>Approximate percentage of the issued share capital of the Company</u>
			<i>(Note 1)</i>
Mr. Chan Sek Keung, Ringo	Beneficial owner	2,692,360	0.12%
	Held by a controlled corporation (Note 2)	11,904,000	0.51%
		<u>14,596,360</u>	<u>0.63%</u>
Mr. Tsoi, David	Beneficial owner	840,620	0.04%
Mr. Pang Hing Chung, Alfred	Beneficial owner	1,500,000	0.06%
Mr. So Lie Mo, Raymond	Beneficial owner	524,120	0.02%

(b) Share options granted by the Company

<u>Name of Director</u>	<u>Capacity</u>	<u>Date of grant</u>	<u>Number of share options held</u>	<u>Number of underlying Shares</u>	<u>Approximate percentage of the issued share capital of the Company</u>
					<i>(Note 1)</i>
Mr. Ko Chun Fung, Henry	Beneficial owner	31.3.2008 <i>(Note 3)</i>	5,705,046	5,705,046	0.25%
	Beneficial owner	10.7.2009 <i>(Note 4)</i>	5,241,200	5,241,200	0.23%
	Beneficial owner	18.11.2010 <i>(Note 5)</i>	6,551,500	6,551,500	0.28%
Mr. Chan Sek Keung, Ringo	Beneficial owner	10.7.2009 <i>(Note 4)</i>	3,930,900	3,930,900	0.17%
	Beneficial owner	18.11.2010 <i>(Note 5)</i>	2,620,600	2,620,600	0.11%
Mr. Wang, John Peter Ben	Beneficial owner	31.3.2008 <i>(Note 3)</i>	5,039,413	5,039,413	0.22%
	Beneficial owner	10.7.2009 <i>(Note 4)</i>	3,930,900	3,930,900	0.17%
	Beneficial owner	18.11.2010 <i>(Note 5)</i>	6,551,500	6,551,500	0.28%
Mr. Pang Hing Chung, Alfred	Beneficial owner	10.7.2009 <i>(Note 4)</i>	262,060	262,060	0.01%
	Beneficial owner	18.11.2010 <i>(Note 5)</i>	262,060	262,060	0.01%

Notes:

- (1) As at 31 March 2013, the total number of the issued Shares was 2,316,052,445.
- (2) Mr. Chan Sek Keung, Ringo was deemed to be interested in 11,904,000 Shares beneficially held by Woodstock Management Limited, a company wholly owned by him.
- (3) These share options 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 share options granted, at an exercise price of HK\$0.679 per Share.
- (4) These share options 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 share options granted, at an exercise price of HK\$0.280 per Share.
- (5) These share options 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 share options granted, at an exercise price of HK\$0.116 per Share.

(II) Long position in the shares and share options of associated corporation of the Company

Melco International Development Limited (“Melco”)

(a) Ordinary shares of HK\$0.50 each of Melco

<u>Name of Director</u>	<u>Capacity</u>	<u>Number of ordinary shares of Melco held</u>	<u>Approximate percentage of the issued share capital of Melco</u>
			<i>(Note 1)</i>
Mr. Ko Chun Fung, Henry	Beneficial owner	420,000	0.027%
Mr. Wang, John Peter Ben	Beneficial owner	11,000	0.001%

(b) Share options granted by Melco

<u>Name of Director</u>	<u>Capacity</u>	<u>Date of grant</u>	<u>Number of share options granted by Melco held</u>	<u>Number of underlying shares of Melco held</u>	<u>Approximate percentage of the issued share capital of Melco</u>
					<i>(Note 1)</i>
Mr. Ko Chun Fung, Henry	Beneficial owner	13.2.2006 <i>(Note 2)</i>	450,000	450,000	0.029%
	Beneficial owner	1.4.2008 <i>(Note 3)</i>	24,000	24,000	0.002%
Mr. Wang, John Peter Ben	Beneficial owner	13.2.2006 <i>(Note 2)</i>	1,500,000	1,500,000	0.098%
	Beneficial owner	1.4.2008 <i>(Note 3)</i>	624,000	624,000	0.041%
	Beneficial owner	3.4.2009 <i>(Note 4)</i>	64,000	64,000	0.004%
	Beneficial owner	8.4.2011 <i>(Note 5)</i>	1,400,000	1,400,000	0.091%
	Beneficial owner	27.1.2012 <i>(Note 6)</i>	500,000	500,000	0.033%

Notes:

- (1) As at 31 March 2013, the total number of the issued shares of Melco was 1,534,091,567.
- (2) The personal interests of these directors represent their derivative interests in Melco comprising the share options granted to them by Melco on 13 February 2006 at an exercise price of HK\$11.80 per share of Melco.

Among the 450,000 share options granted to Mr. Ko Chun Fung, Henry, 130,000 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 135,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016 and 185,000 share options may be exercised during the period from 1 April 2012 to 31 January 2016.

Among the 1,500,000 share options granted to Mr. Wang, John Peter Ben, 610,000 share options may be exercised during the period from 1 April 2008 to 31 January 2016, 555,000 share options may be exercised during the period from 1 April 2010 to 31 January 2016 and 335,000 share options may be exercised during the period from 1 April 2012 to 31 January 2016.

- (3) The personal interests of these directors represent their derivative interests in Melco comprising the share options granted to them by Melco on 1 April 2008 at an exercise price of HK\$10.804 per share of Melco.

Among the 24,000 share options granted to Mr. Ko Chun Fung, Henry, 8,000 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 8,000 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 8,000 share options may be exercised during the period from 1 April 2011 to 31 March 2018.

Among the 624,000 share options granted to Mr. Wang, John Peter Ben, 208,000 share options may be exercised during the period from 1 April 2009 to 31 March 2018, 208,000 share options may be exercised during the period from 1 April 2010 to 31 March 2018 and 208,000 share options may be exercised during the period from 1 April 2011 to 31 March 2018.

- (4) The personal interest of Mr. Wang, John Peter Ben represents his derivative interests in Melco comprising the share options granted to him by Melco on 3 April 2009 at an exercise price of HK\$2.99 per share of Melco. The 64,000 share options may be exercised during the period from 3 April 2012 to 2 April 2019.

- (5) The personal interest of Mr. Wang, John Peter Ben represents his derivative interests in Melco comprising the share options granted to him by Melco on 8 April 2011 at an exercise price of HK\$5.75 per share of Melco.

Among the 1,400,000 share options granted to Mr. Wang, 350,000 share options may be exercised during the period from 5 May 2011 to 7 April 2021, 350,000 share options may be exercised during the period from 8 April 2012 to 7 April 2021, 350,000 share options may be exercised during the period from 8 April 2013 to 7 April 2021 and 350,000 share options may be exercised during the period from 8 April 2014 to 7 April 2021.

- (6) The personal interest of Mr. Wang, John Peter Ben represents his derivative interests in Melco comprising the share options granted to him by Melco on 27 January 2012 at an exercise price of HK\$7.10 per share of Melco.

Among the 500,000 share options granted to Mr. Wang, 125,000 share options may be exercised during the period from 27 January 2012 to 26 January 2022, 125,000 share options may be exercised during the period from 27 January 2013 to 26 January 2022, 125,000 share options may be exercised during the period from 27 January 2014 to 26 January 2022 and 125,000 share options may be exercised during the period from 27 January 2015 to 26 January 2022.

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 2013.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2013, 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.

Long position in Shares and underlying Shares of the Company

Name of shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Approximate percentage of the issued share capital of the Company
				<i>(Note 1)</i>
Melco LottVentures Holdings Limited ("Melco LV")	Beneficial owner	1,181,758,409	-	51.02%
Melco Leisure and Entertainment Group Limited ("Melco Leisure") <i>(Note 2)</i>	Held by a controlled corporation	1,181,758,409	-	51.02%
Melco International Development Limited ("Melco") <i>(Note 3)</i>	Held by controlled corporations	1,181,758,409	-	51.02%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho") <i>(Note 4)</i>	Held by controlled corporations	1,181,758,409	-	51.02%
	Beneficial owner	-	5,705,046	0.25%
Ms. Lo Sau Yan, Sharen <i>(Note 5)</i>	Held by spouse	1,181,758,409	5,705,046	51.27%
Global Crossing Holdings Ltd. ("GCH")	Beneficial owner	217,412,724	-	9.39%
Universal Rich Holdings Limited ("Universal Rich") <i>(Note 6)</i>	Held by a controlled corporation	217,412,724	-	9.39%
Mr. Chang Tung-Bing ("Mr. Chang") <i>(Note 7)</i>	Held by controlled corporations	217,412,724	-	9.39%
Ms. Kao, Tsai Ling	Beneficial owner	184,000,000	-	7.94%

Notes:

- (1) As at 31 March 2013, the total number of the issued Shares was 2,316,052,445.
- (2) Melco Leisure was deemed to be interested in 1,181,758,409 Shares through its controlled corporation, Melco LV.
- (3) Melco was deemed to be interested in 1,181,758,409 Shares through its controlled corporations, Melco LV and Melco Leisure.
- (4) Mr. Ho was deemed to be interested in 1,181,758,409 Shares through his controlled corporations, Melco LV, Melco Leisure and Melco and 5,705,046 share options of the Company granted to him on 31 March 2008 at an exercise price of HK\$0.679 per Share. These share options 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 share options granted.
- (5) Ms. Lo Sau Yan, Sharen is the spouse of Mr. Ho and was deemed to be interested in 1,181,758,409 Shares and 5,705,046 share options of the Company through the interest of her spouse, Mr. Ho.
- (6) Universal Rich was deemed to be interested in 217,412,724 Shares through its controlled corporation, GCH.
- (7) Mr. Chang was deemed to be interested in 217,412,724 Shares through his controlled corporations, GCH and Universal Rich.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the Shares or underlying Shares of the Company as at 31 March 2013.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the three months ended 31 March 2013, 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 2013.

By Order of the Board

MelcoLot Limited

Ko Chun Fung, Henry

Executive Director and Chief Executive Officer

Hong Kong, 13 May 2013

As at the date of this report, the Board consists of one Executive Director, namely Mr. Ko Chun Fung, Henry, 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.