

# MelcoLot Limited

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

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

Interim Report  
**2013**



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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 interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 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 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 the major revenue generator and contributed to approximately 91% of the Group’s revenue for the six months ended 30 June 2013 (six months ended 30 June 2012: 84%).

The Group has also developed a wide presence by managing a network of retail outlets across the PRC, as well as a telephone betting system in Shandong Province, for the distribution of computer-generated lottery tickets and lottery scratch cards. As the license holder for the world leading lottery technologies of Intralot S.A., a company listed on the Athens Stock Exchange and a non-controlling shareholder of the Company’s subsidiary, the Group provides a multimedia content distribution system for the rapid-draw lottery game, “Shi Shi Cai”, in Chongqing Municipality for the Welfare Lottery Management Center, which is the exclusive welfare lottery operator in the PRC.

### Financial Review

The Group continues to be engaged in a single operating segment which is the lottery business. During the six months ended 30 June 2013, total revenue of the Group amounted to HK\$31.5 million (six months ended 30 June 2012: HK\$19.9 million), an increase of approximately 58% which was comprised of the following:

(1) *Sales and trading of lottery terminals*

Revenues generated from the sales and trading of lottery terminals for the Sports Lottery amounted to HK\$28.7 million (six months ended 30 June 2012: HK\$16.7 million), representing an increase of approximately 72%. The improvement is in line with the growth in the overall China lottery market.

(2) *Provision of services and solutions for the distribution of lottery products*

Revenues derived from the provision of services and solutions for the distribution of lottery products for the six months ended 30 June 2013 amounted to HK\$2.8 million (six months ended 30 June 2012: HK\$3.2 million), representing a decrease of approximately 13%. It mainly resulted from the closure of some underperforming retail outlets in the second half of 2012, which formed part of the cost-cutting measures implemented by the Group.

The Group's loss for the six months ended 30 June 2013 amounted to HK\$6.7 million (six months ended 30 June 2012: HK\$87.4 million), representing a decrease of approximately 92%. It was mainly attributable to the following items:

- (i) The overall increase in revenue and gross profit margin, especially for sales and trading of lottery terminals.
- (ii) Net foreign exchange gain amounted to HK\$3.8 million for the six months ended 30 June 2013 (six months ended 30 June 2012: net foreign exchange loss of HK\$5.6 million included in other expenses).
- (iii) No impairment losses on property, plant and equipment and trade and other receivable were recorded for the six months ended 30 June 2013 (six months ended 30 June 2012: HK\$2.6 million and HK\$2.1 million respectively).
- (iv) The Group rationalized retail operations in the PRC and imposed tight cost control measures on expenses during the period. Employee benefits costs were reduced to HK\$6.7 million for the six months ended 30 June 2013, or a decrease of approximately 25% compared to HK\$8.9 million for the corresponding period in 2012.
- (v) Finance costs of the Group decreased significantly by approximately 93% from HK\$50.1 million for the six months ended 30 June 2012 to HK\$3.6 million for the corresponding period in 2013. The decrease was primarily due to the extinguishment of all outstanding convertible bonds issued by the Company in late 2012, which cut off the non-cash, imputed interest arising from convertible bonds.

**Interim Dividend**

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

**Liquidity and Financial Resources**

The Group continues to manage its balance sheet carefully and maintains conservative policies in cash and financial management. As at 30 June 2013, the Group's bank balances and cash amounted to HK\$26.6 million (31 December 2012: HK\$29.1 million) and 87% (31 December 2012: 84%) was denominated in Hong Kong Dollars ("HK\$"), with the remaining balance in Renminbi ("RMB").

**Capital Structure**

The Group did not have any bank borrowings for the six months ended 30 June 2013 and generally financed its operations with internal resources and the amount due to immediate holding company, Melco LottVentures Holdings Limited ("Melco LV") which is a wholly owned subsidiary of Melco International Development Limited, a company listed on the Stock Exchange. The principal of the amount due to immediate holding company is HK\$240,506,000, denominated in Hong Kong Dollars, unsecured, and interest bearing at 3% per annum. Subject to the overriding right to demand immediate repayment by Melco LV, the amount is repayable on 30 September 2013 upon which the repayment date can be automatically further extended to 30 March 2014 unless Melco LV gives notice objecting to such an extension.

**Outlook**

According to the data from the Ministry of Finance, lottery sales in China have increased at a Compound Annual Growth Rate (CAGR) of over 30% for the last two decades, which is higher than the CAGR of the Gross Domestic Product (GDP) for the same period in China. Lottery sales, as a source of government revenue, have played an important role in the development of public well-being. In particular, the only two state-run legal lotteries in China, namely Sports Lottery and Welfare Lottery, have provided a major source of funds for the building of public sports facilities and the financing of social welfare programs respectively.

Despite the fact that the lottery industry continues to show strong year-on-year growth as a whole, there is still enormous potential for future growth in China's lottery market. This situation is due to the low lottery penetration rate in China and low sales rates compared to other more developed nations in per capita terms. The industry is also impacted by the illegal gambling market which is fragmentary and uncountable; hence leading to the reformation of the lottery sector by authorities to recapture such underground lottery revenues. The promulgation of the "Regulations on the Administration of Lotteries" and the "Implementing Rules for the Regulations on the Administration Lotteries", as well as the introduction of the new rapid-draw lottery games and single match sports betting, the increase of prize payout ratios, and the opening up of online and phone lottery distribution, are all a reflection of the Chinese government's dedication to making the lottery industry more credible, competitive and appealing in order to support its long-term growth.

Online lottery ticket sales appear to be the developing trend of the industry. Nonetheless, the Ministry of Finance, the Ministry of Civil Affairs and the General Administration of Sports jointly announced in early 2012 that some illegal websites selling lottery tickets would be banned. Other means of paperless tickets, such as sales via mobile phone applications, have become the new focus of the industry. The Group aims to leverage its access to the world-class expertise of its strategic shareholders and is increasing its focus on new media technologies and sales platforms to capitalize on this growing market development.

#### **Capital Commitment and Contingent Liabilities**

At 30 June 2013 and 31 December 2012, the Group had no significant capital commitments contracted but not provided for in the consolidated financial statements and it also did not have any significant contingent liabilities.

#### **Significant Investments Held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets**

Except for those disclosed in this interim report, there were no other significant investments held, material acquisitions, or disposals of subsidiaries during the period under review. Apart from those disclosed in this interim report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this interim report.

**Charges on Assets**

None of the Group's assets were pledged as of 30 June 2013 or 31 December 2012.

**Exposure to Fluctuations in Exchange Rates**

As at 30 June 2013, all assets and liabilities of the Group were denominated in HK\$ and RMB. During the six months ended 30 June 2013, the business activities of the Group were mainly denominated in HK\$ and RMB. Since the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

**Staff and Remuneration Policy**

As at 30 June 2013, the Group had a total of 67 full-time employees (31 December 2012: 79). For the six months ended 30 June 2013, the employee benefits costs amounted to HK\$6.7 million (six months ended 30 June 2012: HK\$8.9 million). The Group continues to provide remuneration packages to employees that are in line with market practices and past performance. The Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option schemes and staff training programs.

**Changes since 31 December 2012**

There were no other significant changes in the Group's financial position or from the information disclosed under the section headed "Management Discussion and Analysis" in the annual report for the year ended 31 December 2012.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

	Notes	Three months ended 30 June		Six months ended 30 June	
		2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Revenue	3	20,761	9,927	31,488	19,918
Changes in inventories of finished goods and work-in-progress		-	6,177	-	7,544
Purchases of inventories and raw materials consumed		(17,576)	(18,325)	(26,788)	(28,802)
Other income and gains		4,781	159	4,935	317
Employee benefits costs		(3,521)	(4,404)	(6,694)	(8,882)
Depreciation		(360)	(655)	(843)	(1,701)
Impairment losses on:					
- property, plant and equipment		-	(2,740)	-	(2,740)
- trade and other receivables		-	(2,087)	-	(2,087)
Share of results of associates		-	(715)	(307)	(1,447)
Other expenses		(3,474)	(12,610)	(4,834)	(19,392)
Finance costs	5	(1,799)	(25,549)	(3,578)	(50,066)
Loss before taxation		(1,188)	(50,822)	(6,621)	(87,338)
Taxation	6	(59)	(37)	(88)	(37)
Loss for the period	8	(1,247)	(50,859)	(6,709)	(87,375)
<b>Other comprehensive (expense) income</b>					
Exchange differences arising on translation		(2,446)	6,932	(3,307)	8,667
Total comprehensive expense for the period		(3,693)	(43,927)	(10,016)	(78,708)
(Loss) profit for the period attributable to:					
Owners of the Company		(1,526)	(47,071)	(6,039)	(82,235)
Non-controlling interests		279	(3,788)	(670)	(5,140)
		(1,247)	(50,859)	(6,709)	(87,375)
Total comprehensive (expense) income attributable to:					
Owners of the Company		(4,017)	(39,971)	(9,405)	(73,394)
Non-controlling interests		324	(3,956)	(611)	(5,314)
		(3,693)	(43,927)	(10,016)	(78,708)
			(Restated)		(Restated)
<b>Loss per share</b>	9				
- Basic and diluted		(HK0.07 cents)	(HK7.14 cents)	(HK0.26 cents)	(HK12.48 cents)



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

		As at 30 June 2013 (Unaudited) HK\$'000	As at 31 December 2012 (Audited) HK\$'000
	Notes		
<b>Non-current Assets</b>			
Property, plant and equipment	10	3,600	5,975
Interests in associates		–	307
		<u>3,600</u>	<u>6,282</u>
<b>Current Assets</b>			
Trade and other receivables	11	75,467	66,741
Amount due from a related company		66	106
Amount due from an associate		441	–
Bank balances and cash		26,618	29,121
		<u>102,592</u>	<u>95,968</u>
<b>Current Liabilities</b>			
Trade and other payables	12	61,441	58,358
Amount due to immediate holding company	13	244,439	241,277
Amounts due to related companies		708	190
Amount due to a shareholder of a jointly controlled entity		2,334	2,334
Amount due to an associate		–	190
Tax payable		20,858	20,858
		<u>329,780</u>	<u>323,207</u>
<b>Net Current Liabilities</b>		<u>(227,188)</u>	<u>(227,239)</u>
		<u>(223,588)</u>	<u>(220,957)</u>
<b>Capital and Reserves</b>			
Share capital	14	23,360	22,886
Reserves		(258,244)	(255,750)
Deficiency of equity attributable to owners of the Company		(234,884)	(232,864)
Non-controlling interests		11,296	11,907
		<u>(223,588)</u>	<u>(220,957)</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the six months ended 30 June 2013

	Attributable to owners of the Company							Non-controlling interests	Total		
	Share capital	Share premium	Share-based payment reserve	PRC statutory reserves	Other reserve	Convertible bonds equity reserve	Exchange reserve			Accumulated losses	Sub-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 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	(690,505)
Exchange differences arising on translation	-	-	-	-	-	-	8,841	-	8,841	(714)	8,667
Loss for the period	-	-	-	-	-	-	-	(82,235)	(82,235)	(5,140)	(87,375)
Total comprehensive income (expense) for the period	-	-	-	-	-	-	8,841	(82,235)	(73,394)	(5,314)	(78,709)
Recognition of equity-settled share-based payments	-	-	439	-	-	-	-	-	439	-	439
As at 30 June 2012 (unaudited)	5,030	368,963	31,222	3,543	(4,922)	645,492	15,711	(1,753,399)	(688,360)	19,586	(668,774)
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)
Exchange differences arising on translation	-	-	-	-	-	-	(3,366)	-	(3,366)	59	(3,307)
Loss for the period	-	-	-	-	-	-	-	(6,039)	(6,039)	(670)	(6,709)
Total comprehensive expense for the period	-	-	-	-	-	-	(3,366)	(6,039)	(9,405)	(611)	(10,016)
Issue of ordinary shares upon exercise of share options	474	11,935	(5,024)	-	-	-	-	-	7,385	-	7,385
As at 30 June 2013 (unaudited)	23,360	863,706	25,808	-	(4,922)	-	311	(1,143,147)	(234,884)	11,296	(223,588)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the six months ended 30 June 2013

	<b>Six months ended June 30</b>	
	<b>2013</b>	2012
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	<b>(11,914)</b>	(10,326)
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	<b>2,178</b>	–
Interest received	<b>9</b>	17
Investment in an associate	<b>(190)</b>	(2,584)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<b>1,997</b>	(2,567)
NET CASH FROM FINANCING ACTIVITIES		
Proceeds from exercise of share options	<b>7,385</b>	–
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(2,532)</b>	(12,893)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>29,121</b>	26,676
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES	<b>29</b>	(633)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	<b>26,618</b>	13,150

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

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and with Hong Kong Accounting Standard 34, *Interim Financial Reporting*.

The Group has current liabilities which exceed current assets by approximately HK\$227,188,000 as at 30 June 2013. In addition, as disclosed in note 13, the Company entered into a loan agreement with Melco LV with a principal amount of HK\$240,506,000 as a shareholder's loan plus accrued interest thereon with a final repayment date of 30 March 2014. The condensed consolidated financial statements have been prepared on a going concern basis because the Directors are of the opinion that Melco LV will not demand immediate repayment of the shareholder's loan before 30 March 2014 unless the Group has adequate financial resources to do so, and taking into account the Group's cash flow projection for the coming year, the Group will have sufficient working capital to meet its liabilities as they fall due.

**(2) SIGNIFICANT ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared under the historical cost convention. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied 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 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 statements.

**(3) REVENUE**

An analysis of the Group's revenue for the three months and the six months ended 30 June 2013 is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
<b>Lottery business:</b>				
Manufacturing and sales and trading of lottery terminals	18,759	8,756	28,676	16,676
Provision of services and solutions for distribution of lottery products	2,002	1,171	2,812	3,242
	<b>20,761</b>	<b>9,927</b>	<b>31,488</b>	<b>19,918</b>

**(4) SEGMENT INFORMATION**

The Group's revenue and contribution to loss were solely derived from lottery business which comprises manufacturing and sales and trading of lottery terminals and provision of services and solutions for distribution of lottery products. The chief operating decision maker, the Chief Executive Officer, reviews the internally reported information for the lottery business as a whole and the consolidated financial information of the Group for purposes of resource allocation and performance assessment. Accordingly, the Group has only one operating segment, which is the lottery business. No segment analysis is presented other than entity-wide disclosures.

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

**(5) FINANCE COSTS**

	Three months ended 30 June		Six months ended 30 June	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
<b>Interest on:</b>				
Amount due to immediate holding company	1,799	–	3,578	–
Effective interest expenses on convertibles bonds	–	25,349	–	49,667
Loan from a related company wholly repayable within five years	–	200	–	399
	<b>1,799</b>	<b>25,549</b>	<b>3,578</b>	<b>50,066</b>

**(6) TAXATION**

	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Enterprise Income Tax of the PRC – current period	<b>59</b>	37	<b>88</b>	37
Tax charge	<b>59</b>	37	<b>88</b>	37

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods. No Hong Kong Profits Tax was provided for since the Hong Kong subsidiaries have incurred losses from operations for both periods.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

**(7) DIVIDEND**

No interim dividends had been paid or declared by the Company during the six months ended 30 June 2013 (2012: Nil).

**(8) LOSS FOR THE PERIOD**

	<b>Three months ended 30 June</b>		<b>Six months ended 30 June</b>	
	<b>2013</b>	2012	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Loss for the period has been arrived at after charging:				
Depreciation of property, plant and equipment	<b>360</b>	655	<b>843</b>	1,701
Allowance for inventories (included in purchases of inventories and raw materials consumed)	–	5,262	–	5,262
Charity donation	–	–	–	2,467
Management fee paid to lottery operator (included in other expenses)	<b>272</b>	869	<b>589</b>	1,493
and after crediting:				
Net foreign exchange gain	<b>2,858</b>	–	<b>3,813</b>	–
Gain on disposal of property, plant and equipment	<b>606</b>	–	<b>606</b>	–
Bank interest income	<b>5</b>	9	<b>9</b>	17

**(9) LOSS PER SHARE**

The calculation of basic loss per share for the three months and six months ended 30 June 2013 is based on the loss attributable to owners of the Company of approximately HK\$1,526,000 and HK\$6,039,000 (three months and six months ended 30 June 2012: HK\$47,071,000 and HK\$82,235,000) and on the weighted average number of approximately 2,333,734,399 and 2,321,259,537 (three months and six months ended 30 June 2012: 659,037,572) ordinary shares in issue during the period.

The weighted average numbers of ordinary shares for the purposes of basic and diluted loss per share in 2012 had been adjusted for the bonus element of the open offer as completed and disclosed by the Company on 13 November 2012.

The computation of diluted loss per share in 2013 did not include the Company's outstanding share options since their assumed exercise would result in a decrease in loss per share.

The computation of diluted loss per share in 2012 did not include the Company's outstanding convertible bonds and share options since their assumed conversion and exercise would result in a decrease in diluted loss per share.

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

During the period, the Group disposed of certain machinery and equipment with a carrying amount of HK\$1.6 million for proceeds of about HK\$2.2 million. During the six months ended 30 June 2012, the Group wrote off property, plant and equipment with a carrying amount of HK\$2.7 million.

**(11) TRADE AND OTHER RECEIVABLES**

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

	<b>As at 30 June 2013 HK'000</b>	<b>As at 31 December 2012 HK'000</b>
Trade receivable:		
Within 30 days	<b>15,885</b>	32,706
31-90 days	<b>5,072</b>	18,435
91-180 days	<b>10,727</b>	11,525
181-365 days	<b>41,144</b>	200
Over 365 days	<b>200</b>	–
	<b>73,028</b>	62,866
Other receivables	<b>2,439</b>	3,875
	<b>75,467</b>	66,741

Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK\$52,071,000 (31 December 2012: HK\$11,725,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss as the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Included in trade receivables were amounts of HK\$71,402,000 (31 December 2012: HK\$61,537,000) due from an associate of a 37.5% non-controlling shareholder of a group company, which was a subsidiary of the 37.5% non-controlling shareholder in 2012. The amounts are unsecured, interest-free and repayable according to credit terms granted to the associate of the 37.5% non-controlling shareholder of a group company.

## (12) TRADE AND OTHER PAYABLES

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

	<b>As at 30 June 2013</b>	<b>As at 31 December 2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade payables:		
Within 30 days	<b>14,486</b>	28,419
31-90 days	<b>5,142</b>	11,084
91-180 days	<b>10,214</b>	–
181-365 days	<b>16,947</b>	5,302
Over 365 days	<b>5,302</b>	–
	<b>52,091</b>	44,805
Other payables	<b>9,350</b>	13,553
	<b>61,441</b>	58,358

## (13) AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

As at 30 June 2013 and 31 December 2012, the amount due to immediate holding company represented the outstanding principal of HK\$240,506,000 payable to Melco LV. The amount is unsecured, interest bearing at 3% per annum, and subject to Melco LV's overriding right to demand immediate repayment, repayable on 30 September 2013 and such repayment date can be automatically further extended to 30 March 2014 unless Melco LV gives a notice objecting such extension.

The amount is denominated in HK\$, a currency other than the functional currency of the relevant group entity.



**(14) SHARE CAPITAL**

During the six months ended 30 June 2013, the Company issued 47,440,013 shares for exercise of share options, which increased the issued capital by HK\$474,000. There were no other movements in the issued capital of the Company in either the current or the prior interim reporting periods.

**(15) RELATED PARTY TRANSACTIONS**

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

<u>Class of related parties</u>	<u>Nature of transactions</u>	<u>Six months ended</u>	
		<u>30 June</u>	
		<u>2013</u>	<u>2012</u>
		<u>HK\$'000</u>	<u>HK\$'000</u>
Subsidiary of a 37.5% non-controlling shareholder of a group company ( <i>note</i> )	Sales of lottery terminals	17,119	16,358
Associate of a 37.5% non-controlling shareholder of a group company ( <i>note</i> )	Sales of lottery terminals	11,557	-
Subsidiaries of substantial shareholders of the Company	Purchases of inventories	-	29,724
	Sales of lottery terminals	-	318
	Service fee expense	-	115
Non-controlling shareholder of a group company	Sales of property, plant and equipment	2,178	-
Associate	Consultancy fee income	300	300
Fellow subsidiary	Service fee expense	40	-
Immediate holding company	Interest expense	3,578	443
A company beneficially owned by substantial shareholders	Interest expense	-	399

*Note:* The subsidiary of the 37.5% non-controlling shareholder of a group company became the associate of the 37.5% non-controlling shareholder during the six months ended 30 June 2013.

b. Compensation of key management personnel

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

	<b>Six months ended 30 June</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	<i>HK\$'000</i>
Short-term benefits	<b>2,600</b>	3,008
Post-employment benefits	<b>23</b>	27
Share-based payments	-	208
	<b>2,623</b>	3,243

c. The Group's outstanding balances with related parties are set out in the condensed consolidated statement of financial position and in notes 11 and 13.

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

During the six months ended 30 June 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 30 June 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)")

Name of Director	Capacity	Number of Shares held	Approximate percentage of the issued share capital of the Company
			<i>(Note 1)</i>
Mr. Chan Sek Keung, Ringo <i>(Note 2)</i>	Beneficial owner	2,392,360	0.10%
	Held by a controlled corporation <i>(Note 3)</i>	11,904,000	0.51%
		14,296,360	0.61%
Mr. Wang, John Peter Ben	Beneficial owner	3,500	0.00%
Mr. Tsoi, David	Beneficial owner	100,620	0.00%
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>Number of share options held</u>	<u>Number of underlying Shares</u>
Mr. Ko Chun Fung, Henry	Beneficial owner	10,946,246	10,946,246
Mr. Chan Sek Keung, Ringo ( <i>Note 2</i> )	Beneficial owner	6,551,500	6,551,500
Mr. Wang, John Peter Ben	Beneficial owner	8,970,313	8,970,313
Mr. Pang Hing Chung, Alfred	Beneficial owner	524,120	524,120
		<u>26,992,179</u>	<u>26,992,179</u>

*Notes:*

- (1) As at 30 June 2013, the total number of the issued Shares was 2,336,005,282.
- (2) Mr. Chan Sek Keung, Ringo has been resigned as a Director on 2 July 2013.
- (3) 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.

**(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	0.03%
Mr. Wang, John Peter Ben	Beneficial owner	11,000	0.00%

*(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	0.03%
	Beneficial owner	1.4.2008 <i>(Note 3)</i>	24,000	24,000	0.00%
Mr. Wang, John Peter Ben	Beneficial owner	13.2.2006 <i>(Note 2)</i>	1,500,000	1,500,000	0.10%
	Beneficial owner	1.4.2008 <i>(Note 3)</i>	624,000	624,000	0.04%
	Beneficial owner	3.4.2009 <i>(Note 4)</i>	64,000	64,000	0.00%
	Beneficial owner	8.4.2011 <i>(Note 5)</i>	1,400,000	1,400,000	0.09%
	Beneficial owner	27.1.2012 <i>(Note 6)</i>	500,000	500,000	0.03%
	Beneficial owner	2.4.2013 <i>(Note 7)</i>	300,000	300,000	0.02%
	Beneficial owner				

*Notes:*

- (1) As at 30 June 2013, the total number of the issued shares of Melco was 1,534,620,567.
- (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.

- (7) 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 2 April 2013 at an exercise price of HK\$13.40 per share of Melco.

Among the 300,000 share options granted to Mr. Wang, 75,000 share options may be exercised during the period from 2 April 2013 to 1 April 2023, 75,000 share options may be exercised during the period from 2 April 2014 to 1 April 2023, 75,000 share options may be exercised during the period from 2 April 2015 to 1 April 2023 and 75,000 share options may be exercised during the period from 2 April 2016 to 1 April 2023.

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 June 2013.

## SHARE OPTIONS

The share option scheme adopted at the general meeting of the Company on 20 April 2002 (the “**Old Share Option Scheme**”) has expired on 20 April 2012. The share options granted thereunder prior to the expiry date of the Old Share Option Scheme will continue to be valid and exercisable in accordance with the terms of the Old Share Option Scheme.

At the annual general meeting of the Company held on 18 May 2012, the shareholders of the Company approved the adoption of a new share option scheme (the “**2012 Share Option Scheme**”) under which the Directors may grant share options to eligible persons to subscribe for the Shares, subject to the terms and conditions as stipulated therein. Unless otherwise cancelled or amended, the 2012 Share Option Scheme will remain valid for a period of 10 years from the date of its adoption. No share options had been granted under the 2012 Share Option Scheme during the six months ended 30 June 2013.

Details of the movements in the number of share options during the six months ended 30 June 2013 are as follows:

### Old Share Option Scheme

Type of participants	Date of grant	Exercisable period	Exercise price per share	Number of share options			Outstanding at 30.6.2013
				Outstanding at 1.1.2013	Exercised during the period	Lapsed during the period	
			HK\$		(Note 5)		
<b>Directors:</b>							
Mr. Ko Chun Fung, Henry	31.3.2008 (Note 1)	1.10.2008 to 31.3.2018	0.679	5,705,046	-	-	5,705,046
	10.7.2009 (Note 2)	10.7.2010 to 9.7.2019	0.280	5,241,200	-	-	5,241,200
	18.11.2010 (Note 1)	18.5.2011 to 17.11.2020	0.116	6,551,500	(6,551,500)	-	-
Mr. Wang, John Peter Ben	31.3.2008 (Note 1)	1.10.2008 to 31.3.2018	0.679	5,039,413	-	-	5,039,413
	10.7.2009 (Note 2)	10.7.2010 to 9.7.2019	0.280	3,930,900	-	-	3,930,900
	18.11.2010 (Note 1)	18.5.2011 to 17.11.2020	0.116	6,551,500	(6,551,500)	-	-



Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				Outstanding at 1.1.2013	Exercised during the period (Note 5)	Lapsed during the period	Outstanding at 30.6.2013
Mr. Tsoi, David	10.7.2009 (Note 2)	10.7.2010 to 9.7.2019	0.280	262,060	(262,060)	-	-
Mr. Pang Hing Chung, Alfred	10.7.2009 (Note 2)	10.7.2010 to 9.7.2019	0.280	262,060	-	-	262,060
	18.11.2010 (Note 1)	18.5.2011 to 17.11.2020	0.116	262,060	-	-	262,060
Mr. Chan Sek Keung, Ringo (resigned on 2 July 2013)	20.2.2003 (Note 3)	20.2.2004 to 19.2.2013	0.105	1,572,360	(1,572,360)	-	-
	10.7.2009 (Note 2)	10.7.2010 to 9.7.2019	0.280	3,930,900	-	-	3,930,900
	18.11.2010 (Note 1)	18.5.2011 to 17.11.2020	0.116	2,620,600	-	-	2,620,600
Mr. Chrysafidis, Evangelos (resigned on 13 November 2012)	18.11.2010 (Note 1)	18.5.2011 to 17.11.2020	0.116	1,310,300	(1,310,300)	-	-
				43,239,899	(16,247,720)	-	26,992,179
<b>Substantial shareholder:</b>	31.3.2008 (Note 1)	1.10.2008 to 31.3.2018	0.679	5,705,046	-	-	5,705,046
	10.7.2009 (Note 2)	10.7.2010 to 9.7.2019	0.280	5,241,200	(5,241,200)	-	-
	18.11.2010 (Note 1)	18.5.2011 to 17.11.2020	0.116	6,551,500	(6,551,500)	-	-
				17,497,746	(11,792,700)	-	5,705,046

Type of participants	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				Outstanding at 1.1.2013	Exercised during the period (Note 5)	Lapsed during the period	Outstanding at 30.6.2013
Employees:	31.3.2008 (Note 1)	1.10.2008 to 31.3.2018	0.679	6,440,123	-	-	6,440,123
	16.2.2009 (Note 2)	16.2.2010 to 15.2.2019	0.229	2,620,600	(2,620,600)	-	-
	10.7.2009 (Note 2)	10.7.2010 to 9.7.2019	0.280	7,999,381	(1,073,090)	(203,096)	6,723,195
	18.11.2010 (Note 1)	18.5.2011 to 17.11.2020	0.116	10,076,207	(7,216,350)	-	2,859,857
				<u>27,136,311</u>	<u>(10,910,040)</u>	<u>(203,096)</u>	<u>16,023,175</u>
Advisors: (Note 4)	12.1.2007 (Note 3)	12.1.2008 to 11.1.2017	0.067	1,588,736	(1,005,654)	-	583,082
	31.3.2008 (Note 1)	1.10.2008 to 31.3.2018	0.679	10,424,746	-	-	10,424,746
	16.2.2009 (Note 2)	16.2.2010 to 15.2.2019	0.229	12,447,850	(1,048,240)	-	11,399,610
	10.7.2009 (Note 2)	10.7.2010 to 9.7.2019	0.280	12,094,069	(2,921,969)	-	9,172,100
	18.11.2010 (Note 1)	18.5.2011 to 17.11.2020	0.116	9,827,250	(3,513,690)	-	6,313,560
				<u>46,382,651</u>	<u>(8,489,553)</u>	<u>-</u>	<u>37,893,098</u>
			<u>134,256,607</u>	<u>(47,440,013)</u>	<u>(203,096)</u>	<u>86,613,498</u>	

No share options under the Old Share Option Scheme has been granted or cancelled during the six months ended 30 June 2013.

*Notes:*

- (1) These grants under the Old Share Option Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of one year, starting from six months of the grant date at stepped six months increments of 50% of the total share options granted.
- (2) These grants under the Old Share Option Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of three years, starting from the first anniversary of the grant date at stepped annual increments of 33% of the total share options granted.
- (3) These grants under the Old Share Option Scheme are exercisable for a period not later than 10 years from the date of grant, within which there is a total vesting period of four years, starting from the first anniversary of the grant date at stepped annual increments of 25% of the total share options granted.
- (4) These are individuals who rendered consultancy services in respect of the business development to the Group without receiving any compensation. The Group granted share options to them for recognizing their services similar to those rendered by other employees.
- (5) The weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK\$0.655.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 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	-	50.59%
Melco Leisure and Entertainment Group Limited ("Melco Leisure") <i>(Note 2)</i>	Held by a controlled corporation	1,181,758,409	-	50.59%
Melco <i>(Note 3)</i>	Held by controlled corporations	1,181,758,409	-	50.59%
Mr. Ho, Lawrence Yau Lung ("Mr. Ho") <i>(Note 4)</i>	Held by controlled corporations	1,181,758,409	-	50.59%
	Beneficial owner	-	5,705,046	0.24%
Ms. Lo Sau Yan, Sharen <i>(Note 5)</i>	Held by spouse	1,181,758,409	5,705,046	50.83%
Global Crossing Holdings Ltd. ("GCH")	Beneficial owner	217,412,724	-	9.31%
Universal Rich Holdings Limited ("Universal Rich") <i>(Note 6)</i>	Held by a controlled corporation	217,412,724	-	9.31%
Mr. Chang Tung-Bing <i>(Note 7)</i>	Held by controlled corporations	217,412,724	-	9.31%
Ms. Kao, Tsai Ling	Beneficial owner	184,000,000	-	7.88%

*Notes:*

- (1) As at 30 June 2013, the total number of the issued Shares was 2,336,005,282.
- (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.
- (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 Tung-Bing 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 30 June 2013.

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

During the six months ended 30 June 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.

## **CORPORATE GOVERNANCE**

### **Compliance with the Corporate Governance Code**

The Company has complied throughout the six months ended 30 June 2013 with the code provisions set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules.

### **Required Standard of Securities Dealings by Directors**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Have made specific enquiry of all Directors, all Directors have complied with the required standard set out in the code of conduct regarding Directors' securities transactions.

### AUDIT COMMITTEE

The Company has established an audit committee for the purposes of reviewing and providing supervision over the Company's financial reporting process and internal controls. It also reviews the effectiveness of the audit process and risk evaluation. The audit committee of the Company presently comprises the three independent non-executive Directors, namely Mr. Tsoi, David (Chairman of the audit committee), Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond, and a non-executive Director, namely Mr. Tsui Che Yin, Frank (Chairman of the Board).

The audit committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the period, and was of the opinion that the accounting policies of the Group are in accordance with the current best practice in Hong Kong.

### CHANGES IN DIRECTORS' INFORMATION

Mr. Tsoi, David, an independent non-executive Director of the Company, was appointed as an independent non-executive director of Universal Technologies Holdings Limited, a company whose shares are listed on the Stock Exchange, with effect from 3 June 2013.

Mr. Wang, John Peter Ben, a non-executive Director of the Company, has resigned as the chairman of the board of directors of Summit Ascent Holdings Limited ("**Summit Ascent**"), a company whose shares are listed on the Stock Exchange. Mr. Wang will remain as an executive director of Summit Ascent and be re-designated as the deputy chairman of the board of directors of Summit Ascent with effect from 10 July 2013.

Save as disclosed above, there is no other information in respect of Directors required to be disclosed pursuant to Rule 17.50A(1) of the GEM Listing Rules.

## **BOARD OF DIRECTORS**

As announced by the Company with effect from 2 July 2013, Mr. Chan Sek Keung, Ringo has resigned from his position as the Chairman of the Board, a non-executive Director and member of the remuneration committee and:

- (i) Mr. Tsui Che Yin, Frank has been appointed as the Chairman of the Board, non-executive Director and member of the audit committee;
- (ii) Mr. Tsang Yuen Wai, Samuel has been appointed as an executive Director; and
- (iii) Mr. Tam Chi Wai, Dennis has been appointed as an executive Director and member of the remuneration committee.

As at the date of this report, the Board consists of three executive Directors, namely Mr. Ko Chun Fung, Henry, Mr. Tsang Yuen Wai, Samuel and Mr. Tam Chi Wai, Dennis, two non-executive Directors, namely Mr. Tsui Che Yin, Frank (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.

By Order of the Board

**MelcoLot Limited**

**Ko Chun Fung, Henry**

*Executive Director and Chief Executive Officer*

Hong Kong, 8 August 2013