



Interim Report 2014

MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)
A Hong Kong Listed Company (Stock Code: 8198)
www.melcolot.com

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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 2014 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**”). We are a distributor of high quality, versatile lottery terminals and hardware for the China Sports Lottery Administration Centre, which is the exclusive sports lottery operator in the PRC. The distribution business is our major revenue generator and contributed to approximately 93% of the Group’s revenue for the six months ended 30 June 2014 (six months ended 30 June 2013: 91%).

As the license holder for Intralot S.A. Integrated Lottery Systems and Services’ world leading lottery technologies, the Group provides game upgrading technology and system maintenance service for the rapid draw game, “Shi Shi Cai” in the Chongqing Municipality. The Group has also developed a wide presence by managing a network of retail outlets in the PRC.

On 29 May 2014, the Company completed an open offer (the “**Open Offer**”) on the basis of three offer shares for every ten existing shares at a subscription price of HK\$0.90 per offer share to raise net proceeds of approximately HK\$635.9 million from qualifying shareholders of the Company. As a result of the Open Offer, a total of 725,224,723 new shares were issued by the Company. Out of the net proceeds, approximately HK\$251.6 million has been used to repay the shareholder’s loan due to the immediate holding company, and the remaining balance was intended to be applied for development of the Group’s existing lottery projects and financing new investment opportunities.

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 shareholders’ value.

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 2014, total revenue of the Group amounted to HK\$22.5 million (six months ended 30 June 2013: HK\$31.5 million), a decrease of approximately 28%, which was comprised of the following:

(1) *Sales of lottery terminals and hardware*

Revenues generated from the sales of lottery terminals and hardware for the Sports Lottery amounted to HK\$20.9 million (six months ended 30 June 2013: HK\$28.7 million), representing a decrease of approximately 27%. The Group adopted a low pricing strategy in order to maintain market share as the demand of terminals and hardware was slower than expected.

(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 2014 amounted to HK\$1.7 million (six months ended 30 June 2013: HK\$2.8 million), representing a decrease of approximately 41%. The decrease was mainly due to a decline in sales of lottery products which had strong growth in the corresponding period in 2013.

The Group's loss for the six months ended 30 June 2014 amounted to HK\$20.8 million (six months ended 30 June 2013: HK\$6.7 million). Such increase in loss was mainly attributable to the following items:

- (i) the overall decrease in revenue, especially for sales of lottery terminals and hardware;
- (ii) net foreign exchange loss amounted to HK\$7.0 million for the six months ended 30 June 2014 (six months ended 30 June 2013: gain of HK\$3.8 million);
- (iii) employee benefits costs were increased to HK\$8.7 million for the six months ended 30 June 2014, or an increase of approximately 29% compared to HK\$6.7 million for the corresponding period in 2013. The increase was primarily due to the non-cash expenses from the share option scheme granted in July 2013; and

- (iv) finance costs of the Group decreased by approximately 14% from HK\$3.6 million for the six months ended 30 June 2013 to HK\$3.1 million for the corresponding period in 2014. The decrease was primarily due to the Group fully settled the amount due to immediate holding company in June 2014.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: 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 2014, the Group's short term bank deposit and bank balances and cash amounted to HK\$453.8 million (31 December 2013: HK\$56.2 million) and 97% (31 December 2013: 87%) was denominated in Hong Kong Dollars ("**HK\$**"), with the remaining balance in Renminbi ("**RMB**"). The increase was mainly due to proceeds received from the Open Offer during the period. The gearing ratio of the Group (total borrowings dividend by shareholders' funds) was nil as at 30 June 2014 (31 December 2013: approximately 118%).

Capital Structure

As at 30 June 2014, the net current assets of the Group were HK\$421.8 million (31 December 2013: net current liabilities HK\$204.5 million). The improvement was due to completion of the Open Offer and repayment of the amount due to immediate holding company during the period. This had the effect of turning around the Company's equity attributable to shareholders of the Company to HK\$418.3 million by the six months ended 30 June 2014 (31 December 2013: deficiency of HK\$210.7 million).

The Group did not have any bank borrowings for the six months ended 30 June 2014 and generally financed its operations with internal resources.

Outlook

The PRC lottery market has experienced strong growth in recent years as a result of positive macro trends in China. It is expected to continue to grow at a comparable rate in the near future due to the increasingly more transparent regulatory environment for the development of the lottery market and individual disposable income. Our goal is to maintain and enhance our position as a lottery terminal and hardware provider in the PRC and also focus on the development on the paperless tickets, such as sales via mobile phone application. To achieve our goal, we intend to leverage our existing strengths by maintaining cooperation and strategic partnerships with provincial lottery administration centers.

Further efforts are ongoing to enhance the operating structure and strengthen the financial position of the Group. Subsequent to these strategic changes, the Company will be better positioned to exploit opportunities in the dynamic China lottery market, with a particular focus on paperless channels. The Company will seek to leverage its access to advanced lottery industry knowhow and global best practices to capitalize on these opportunities.

Capital Commitment and Contingent Liabilities

As at 30 June 2014 and 31 December 2013, the Group had no significant capital commitments contracted but not provided for in the condensed 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 2014 or 31 December 2013.

Exposure to Fluctuations in Exchange Rates

As at 30 June 2014, all assets and liabilities of the Group were denominated in HK\$, RMB and United States dollar. During the six months ended 30 June 2014, 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 2014, the Group had a total of 28 full-time employees (31 December 2013: 35). For the six months ended 30 June 2014, the employee benefits costs amounted to HK\$8.7 million (six months ended 30 June 2013: HK\$6.7 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 2013

Other than the aforementioned, 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 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014	2013	2014	2013
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue	3	11,432	20,761	22,542	31,488
Cost of sales		(10,030)	(17,576)	(19,767)	(26,788)
Other income and gains		665	4,781	935	4,935
Employee benefit costs		(4,585)	(3,521)	(8,655)	(6,694)
Depreciation		(307)	(360)	(592)	(843)
Share of results of associates		-	-	-	(307)
Other expenses		(4,409)	(3,474)	(12,079)	(4,834)
Finance costs	5	(1,305)	(1,799)	(3,084)	(3,578)
Loss before taxation		(8,539)	(1,188)	(20,700)	(6,621)
Taxation	6	-	(59)	(121)	(88)
Loss for the period	8	(8,539)	(1,247)	(20,821)	(6,709)
Other comprehensive income (expense)					
<i>Items that will be reclassified subsequently to profit or loss</i>					
Exchange differences arising on translation		2,114	(2,446)	6,835	(3,307)
Total comprehensive expense for the period		(6,425)	(3,693)	(13,986)	(10,016)
(Loss) profit for the period attributable to:					
Owners of the Company		(8,466)	(1,526)	(20,356)	(6,039)
Non-controlling interests		(73)	279	(465)	(670)
		(8,539)	(1,247)	(20,821)	(6,709)
Total comprehensive (expense) income attributable to:					
Owners of the Company		(6,559)	(4,017)	(13,649)	(9,405)
Non-controlling interests		134	324	(337)	(611)
		(6,425)	(3,693)	(13,986)	(10,016)
			(Restated)		(Restated)
Loss per share					
- Basic and diluted (HK cents)	9	(0.30)	(0.06)	(0.76)	(0.24)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		As at 30 June 2014 <u>(Unaudited)</u> <i>HK\$'000</i>	As at 31 December 2013 <u>(Audited)</u> <i>HK\$'000</i>
Non-current Assets			
Property, plant and equipment	10	<u>2,463</u>	<u>3,038</u>
Current Assets			
Trade and other receivables	11	26,167	44,167
Amount due from an associate		686	645
Bank deposits with original maturity over three months		199,044	–
Bank balances and cash		<u>254,774</u>	<u>56,199</u>
		<u>480,671</u>	<u>101,011</u>
Current Liabilities			
Trade and other payables	12	34,408	26,536
Amount due to immediate holding company	13	–	248,492
Amounts due to related companies		996	889
Amount due to a shareholder of a joint venture		2,334	2,334
Amount due to a fellow subsidiary		144	90
Amount due to non-controlling interests		–	6,282
Tax payable		<u>20,976</u>	<u>20,858</u>
		<u>58,858</u>	<u>305,481</u>
Net Current Assets (Liabilities)		<u>421,813</u>	<u>(204,470)</u>
		<u><u>424,276</u></u>	<u><u>(201,432)</u></u>

		As at 30 June 2014	As at 31 December 2013
		(Unaudited)	(Audited)
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Capital and Reserves			
Share Capital	14	31,454	24,081
Reserves		386,893	(234,819)
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Equity (deficiency of equity) attributable to owners of the Company		418,347	(210,738)
Non-controlling interests		5,929	9,306
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		424,276	(201,432)
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to the owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Share-based			Accumulated losses HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
			Share payment reserve HK\$'000	Other reserve HK\$'000	Exchange reserve HK\$'000				
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)	(234,864)	11,296	(223,588)

Attributable to the owners of the Company									
	Share capital	Share premium	Share-based payment reserve	Other reserve	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2014 (audited)	24,081	906,442	18,557	(4,922)	(2,332)	(1,152,564)	(210,738)	9,306	(201,432)
Exchange differences arising on translation	-	-	-	-	6,707	-	6,707	128	6,835
Loss for the period	-	-	-	-	-	(20,356)	(20,356)	(465)	(20,821)
Total comprehensive income (expense) for the period	-	-	-	-	6,707	(20,356)	(13,649)	(337)	(13,986)
Issue of ordinary shares upon exercise of share options	121	5,627	(2,185)	-	-	-	3,563	-	3,563
Issue of new shares upon Open Offer	7,252	645,450	-	-	-	-	652,702	-	652,702
Recognition of the share-based payment reserve	-	-	3,224	-	-	-	3,224	-	3,224
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(3,040)	(3,040)
Expenses in relation to new shares issued	-	(16,755)	-	-	-	-	(16,755)	-	(16,755)
As at 30 June 2014 (unaudited)	31,454	1,540,764	19,596	(4,922)	4,375	(1,172,920)	418,347	5,929	424,276

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended June 30	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	<u>17,374</u>	<u>(11,914)</u>
INVESTING ACTIVITIES		
Placement of bank deposit with original maturity over three months	(199,044)	-
Purchase of property, plant and equipment	(34)	-
Investment in an associate	-	(190)
Interest received	722	9
Proceeds from disposal of property, plant and equipment	-	2,178
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	<u>(198,356)</u>	<u>1,997</u>
FINANCING ACTIVITIES		
Proceeds from Open Offer	652,702	-
Proceeds from exercise of share options	3,563	7,385
Repayment to immediate holding company	(251,576)	-
Share issue expenses	(15,157)	-
Dividend paid	(9,835)	-
NET CASH GENERATED FROM FINANCING ACTIVITIES	<u>379,697</u>	<u>7,385</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	198,715	(2,532)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	56,199	29,121
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(140)</u>	<u>29</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	<u><u>254,774</u></u>	<u><u>26,618</u></u>

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*.

(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 2013, 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 2014. 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 condensed consolidated financial statements.

(3) REVENUE

An analysis of the Group's revenue for the three months and the six months ended 30 June 2014 is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Lottery business:				
Sales of lottery terminals and hardware	10,584	18,759	20,891	28,676
Provision of services and solutions for distribution of lottery products	848	2,002	1,651	2,812
	11,432	20,761	22,542	31,488

(4) **SEGMENT INFORMATION**

The Group's revenue and contribution to loss were solely derived from lottery business which comprises sales of lottery terminals and hardware 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	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest on:				
Amount due to immediate holding company	1,305	1,799	3,084	3,578

(6) **TAXATION**

	Three months ended 30 June		Six months ended 30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Enterprise Income Tax of the PRC				
- current period	-	59	121	88

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 2014 (2013: Nil).

(8) **LOSS FOR THE PERIOD**

	Three months ended		Six months ended	
	30 June		30 June	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Loss for the period has been arrived at after charging:				
Depreciation of property, plant and equipment	307	360	592	843
Management fee paid to lottery operator	351	272	643	589
Net foreign exchange loss	1,860	-	6,958	-
and after crediting:				
Net foreign exchange gain	-	2,858	-	3,813
Gain on disposal of property, plant and equipment	-	606	-	606
Bank interest income	663	5	722	9

(9) **LOSS PER SHARE**

The calculation of basic loss per share for the three months and six months ended 30 June 2014 is based on the loss attributable to owners of the Company of approximately HK\$8,466,000 and HK\$20,356,000 (three months and six months ended 30 June 2013: HK\$1,526,000 and HK\$6,039,000) and on the weighted average number of approximately 2,780,782,709 and 2,674,564,534 (three months and six months ended 30 June 2013: 2,483,871,155 and 2,470,748,651) 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 2013 had been adjusted for the bonus element of the Open Offer as completed and disclosed by the Company on 28 May 2014.

The computation of diluted loss per share in 2014 and 2013 did not include the Company's outstanding share options since their assumed exercise would result in a decrease in loss per share.

(10) PROPERTY, PLANT AND EQUIPMENT

During the period, no disposal was made by the Group. During the six months ended 30 June 2013, 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.

(11) TRADE AND OTHER RECEIVABLES

The Group allows credit periods ranging from 30 to 180 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:

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Trade receivables:		
Within 30 days	12,350	13,566
91-180 days	10,480	11,907
181-365 days	–	2,273
Over 365 days	–	12,692
	22,830	40,438
Other receivables	3,337	3,729
	26,167	44,167

Included in the Group's trade receivable balance, nil (31 December 2013: HK\$26,872,000) which was 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, nil (31 December 2013: HK\$27,409,000) was due from an associate of a 37.5% non-controlling shareholder of a group company. 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:

	As at 30 June 2014 (Unaudited) HK\$'000	As at 31 December 2013 (Audited) HK\$'000
Trade payables:		
Within 30 days	11,073	–
91-180 days	11,052	11,128
181-365 days	1,003	–
Over 365 days	–	4,507
	23,128	15,635
Other payables and accruals	11,280	10,901
	34,408	26,536

(13) AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

As at 31 December 2013, the amount due to immediate holding company represented the outstanding principal of HK\$240,506,000 payable to Melco LottVentures Holdings Limited (“Melco LV”). The amount was unsecured, interest bearing at 3% per annum, and subject to Melco LV’s overriding right to demand immediate repayment, otherwise repayable on 30 March 2015.

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

During the six months ended 30 June 2014, the Company settled the amount due to immediate holding company after receipt of proceeds from the Open Offer.

(14) SHARE CAPITAL

	Authorised <i>(number of shares)</i>	Issued and fully paid	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each:			
At 1 January 2013 (Audited)	5,500,000,000	2,288,565,269	22,886
Exercise of share options	–	47,440,013	474
	<hr/>	<hr/>	<hr/>
30 June 2013 (Unaudited)	<u>5,500,000,000</u>	<u>2,336,005,282</u>	<u>23,360</u>
	<hr/>	<hr/>	<hr/>
At 1 January 2014 (Audited)	5,500,000,000	2,408,041,487	24,081
Exercise of share options	–	12,167,542	121
Share issued from an the Open Offer	–	725,224,723	7,252
	<hr/>	<hr/>	<hr/>
30 June 2014 (Unaudited)	<u>5,500,000,000</u>	<u>3,145,433,752</u>	<u>31,454</u>

During the six months ended 30 June 2014, the Company issued 12,167,542 shares for exercise of share options, which increased the issued capital by approximately HK\$121,000.

The Company completed the Open Offer to raise gross proceeds of approximately HK\$652.7 million by way of an Open Offer on the basis of three offer shares for every ten existing shares at a subscription price of HK\$0.90 per offer share on 29 May 2014. The Company has issued 725,224,723 new shares from the Open Offer. The closing price of the Company's shares was HK\$1.18 per share on 11 April 2014, being the date on which the terms of the Open Offer were fixed. The net price per offer share was approximately HK\$0.88.

The net proceeds of the Open Offer, after deduction of related expenses, was approximately HK\$635.9 million. Out of the net proceeds, approximately HK\$251.6 million has been used to repay the shareholder's loan due to immediate holding company, and the remaining balance was intended to be applied for development of the Group's existing lottery projects and financing new investment opportunities.

(15) RELATED PARTY TRANSACTIONS

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

Class of related parties	Nature of transactions	Six months ended 30 June	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Subsidiary of a 37.5% non-controlling shareholder of a group company (note 1)	Sales of lottery terminals (note 2)	-	17,119
Associate of a 37.5% non-controlling shareholder of a group company (note 1)	Sales of lottery terminals (note 2)	574	11,557
Non-controlling shareholder of a group company	Sales of property, plant and equipment	-	2,178
Associate	Consultancy fee income	-	300
Non-controlling shareholders of a group company	Expenses recharge income (note 2)	212	-
Non-controlling shareholders of a group company	Dividend paid	9,562	-
Fellow subsidiary	Service fee expense (note 2)	863	40
Immediate holding company	Interest expense (note 3)	3,084	3,578

Note 1: 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.

Note 2: For the six months ended 30 Jun 2014, the above transactions fall under the definition of “continuing connected transaction” under the GEM Listing Rules. As the above transactions are on normal commercial terms and were less than HK\$1 million, the above transactions constitutes de minimis continuing connected transaction exempt pursuant to Rule 20.74(1) of the GEM Listing Rules and are exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements.

Note 3: The transaction falls under the definition of “continuing connected transaction” under the GEM Listing Rules. As the above transaction is on normal commercial terms and no security is granted in respect of the financial assistance provided by the immediate holding company. The transaction constitutes continuing connected transaction exempt pursuant to Rule 20.88 of the GEM Listing Rules and is fully exempt from shareholder’s approval, annual review and all disclosure requirements.

b. Compensation of key management personnel

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term benefits	2,256	2,600
Post-employment benefits	8	23
Share-based payments	3,062	-
	5,326	2,623

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 2014, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the six months ended 30 June 2014 or at any time during such period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2014, the interests of the Directors, the chief executive of the Company and their respective associates in the shares and underlying shares of the Company or any of 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>	Approximate percentage of issued share capital of the Company (Note 1)
Mr. Tsoi, David	Beneficial owner	130,806	0.00%
Mr. Pang Hing Chung, Alfred	Beneficial owner	1,590,000	0.05%

(b) *Share options granted by the Company*

<u>Name of Director</u>	<u>Capacity</u>	<u>Number of underlying Shares held pursuant to share options</u>	<u>Approximate percentage of issued share capital of the Company</u>
		<i>(Notes 2 & 3)</i>	<i>(Note 1)</i>
Mr. Tsui Che Yin, Frank	Beneficial owner	6,386,400	0.20%
Mr. Ko Chun Fung, Henry	Beneficial owner	3,193,200	0.10%
Mr. Tsang Yuen Wai, Samuel	Beneficial owner	6,386,400	0.20%
Mr. Tam Chi Wai, Dennis	Beneficial owner	6,386,400	0.20%
Mr. Pang Hing Chung, Alfred	Beneficial owner	557,872	0.02%

Notes:

- (1) As at 30 June 2014, the total number of issued Shares was 3,145,433,752.
- (2) On 11 April 2014, the Company announced that it proposed to raise not less than approximately HK\$652.7 million, before expenses, by way of an open offer of not less than 725,224,723 offer shares (i.e. new Shares to be issued pursuant to the open offer) (the “**Offer Shares**”) at the subscription price of HK\$0.90 per Offer Share on the basis of three Offer Shares for every ten Shares held by the qualifying shareholders of the Company (the “**Open Offer**”). Upon the completion of the Open Offer on 29 May 2014, the exercise price per Share and number of Shares which may be issued in respect of the outstanding share options have been adjusted pursuant to the terms of the share option schemes adopted on 20 April 2002 and 18 May 2012 respectively, details of which were set out in the announcement of the Company dated 28 May 2014.
- (3) Details of share options granted to the Directors pursuant to the share option schemes of the Company are set out in the section headed “Share Options” of this report.

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

Melco International Development Limited (“**Melco**”)

(a) Ordinary shares of Melco

Name of Director	Number of ordinary shares held	Approximate percentage of issued shares of Melco
	<i>(Note 2)</i>	<i>(Note 1)</i>
Mr. Tsui Che Yin, Frank	4,547,660	0.29%
Mr. Ko Chun Fung, Henry	894,000	0.06%
Mr. Tsang Yuen Wai, Samuel	3,545,162	0.23%
Mr. Tam Chi Wai, Dennis	2,979,222	0.19%
Ms. Chan Po Yi, Patsy	4,000	0.00%

(b) Share options granted by Melco

Name of Director	Number of underlying shares held pursuant to share options	Approximate percentage of issued shares of Melco
	<i>(Notes 2 & 3)</i>	<i>(Note 1)</i>
Mr. Tsui Che Yin, Frank	3,070,000	0.20%
Mr. Tsang Yuen Wai, Samuel	1,655,000	0.11%
Mr. Tam Chi Wai, Dennis	3,135,000	0.20%

Notes:

- (1) As at 30 June 2014, the total number of issued shares of Melco was 1,562,244,555.
- (2) This represents interests held by the relevant Director as beneficial owner.
- (3) Details of the 3,070,000 share options are as follows:
 - 170,000 share options granted on 7 April 2010 at exercise price of HK\$3.76 are exercisable from 7 April 2015 to 6 April 2020
 - 1,200,000 share options granted on 27 January 2012 at exercise price of HK\$7.10 are divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022
 - 1,000,000 share options granted on 2 April 2013 at exercise price of HK\$13.40 are divided into 4 tranches exercisable from 2 April 2013, 2 April 2014, 2 April 2015 and 2 April 2016 respectively to 1 April 2023
 - 700,000 share options granted on 3 April 2014 at exercise price of HK\$26.65 are divided into 4 tranches exercisable from 3 April 2014, 3 April 2015, 3 April 2016 and 3 April 2017 respectively to 2 April 2024

Details of the 1,655,000 share options are as follows:

- 125,000 share options granted on 7 April 2010 at exercise price of HK\$3.76 are exercisable from 7 April 2015 to 6 April 2020
- 330,000 share options granted on 27 January 2012 at exercise price of HK\$7.10 are exercisable from 27 January 2015 to 26 January 2022
- 500,000 share options granted on 2 April 2013 at exercise price of HK\$13.40 are divided into 2 tranches exercisable from 2 April 2015 and 2 April 2016 respectively to 1 April 2023
- 700,000 share options granted on 3 April 2014 at exercise price of HK\$26.65 are divided into 4 tranches exercisable from 3 April 2014, 3 April 2015, 3 April 2016 and 3 April 2017 respectively to 2 April 2024

Details of the 3,135,000 share options are as follows:

- 30,000 share options granted on 1 April 2008 at exercise price of HK\$10.804 are divided into 3 tranches exercisable from 1 April 2009, 1 April 2010 and 1 April 2011 respectively to 31 March 2018
- 85,000 share options granted on 7 April 2010 at exercise price of HK\$3.76 are exercisable from 7 April 2015 to 6 April 2020
- 1,320,000 share options granted on 27 January 2012 at exercise price of HK\$7.10 are divided into 4 tranches exercisable from 27 January 2012, 27 January 2013, 27 January 2014 and 27 January 2015 respectively to 26 January 2022
- 1,000,000 share options granted on 2 April 2013 at exercise price of HK\$13.40 are divided into 4 tranches exercisable from 2 April 2013, 2 April 2014, 2 April 2015 and 2 April 2016 respectively to 1 April 2023
- 700,000 share options granted on 3 April 2014 at exercise price of HK\$26.65 are divided into 4 tranches exercisable from 3 April 2014, 3 April 2015, 3 April 2016 and 3 April 2017 respectively to 2 April 2024

Save as disclosed above, none of the Directors or chief executive of the Company and their respective associates had any interests or short position in any Shares, underlying Shares and debentures of the Company or any of its associated corporations as at 30 June 2014.

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.

Movements of the share options, which were granted under the Old Share Option Scheme and the 2012 Share Option Scheme, during the six months ended 30 June 2014, are set out below:

Type of participants	Number of share options						Date of grant	Exercise price (Note 2)	Exercisable period	Notes	
	Before the Open Offer			After the Open Offer							
	As at 1 January 2014	Exercised	Lapsed	Adjustment for Open Offer (Note 2)	Exercised	Lapsed					As at 30 June 2014
								HK\$			
(i) Old Share Option Scheme											
Director											
Mr. Pang Hing Chung, Alfred	262,060	-	-	16,876	-	-	278,936	10.07.2009	0.263	10.07.2010 -09.07.2019	5
	262,060	-	-	16,876	-	-	278,936	18.11.2010	0.109	18.05.2011 -17.11.2020	4
Sub-total:	524,120	-	-	33,752	-	-	557,872				
Employees	3,202,372	(1,834,420)	-	88,093	-	-	1,456,045	31.03.2008	0.638	01.10.2008 -31.03.2018	4
	969,622	(719,400)	-	16,112	-	(1,346)	264,988	10.07.2009	0.263	10.07.2010 -09.07.2019	5
	608,351	(385,600)	-	14,344	-	-	237,095	18.11.2010	0.109	18.05.2011 -17.11.2020	4
Sub-total:	4,780,345	(2,939,420)	-	118,549	-	(1,346)	1,958,128				
Advisors	583,082	-	-	37,548	(568,330)	-	52,300	12.01.2007	0.063	12.01.2008 -11.01.2017	3, 7
	1,768,905	-	-	113,914	(195,254)	-	1,687,565	31.03.2008	0.638	01.10.2008 -31.03.2018	4, 7
	3,380,574	(602,738)	-	178,892	-	-	2,956,728	16.02.2009	0.215	16.02.2010 -15.02.2019	5, 7
	5,241,200	(5,241,200)	-	-	-	-	-	10.07.2009	0.263	10.07.2010 -09.07.2019	5, 7
	3,930,900	(2,620,600)	-	84,383	-	-	1,394,683	18.11.2010	0.109	18.05.2011 -17.11.2020	4, 7
Sub-total:	14,904,661	(8,464,538)	-	414,737	(763,584)	-	6,091,276				
Total:	20,209,126	(11,403,958)	-	567,038	(763,584)	(1,346)	8,607,276				

Type of participants	Number of share options						Date of grant	Exercise price (Note 2)	Exercisable period	Notes	
	Before the Open Offer			After the Open Offer							
	As at 1 January 2014	Exercised	Lapsed	Adjustment for Open Offer (Note 2)	Exercised	Lapsed					As at 30 June 2014
								HK\$			
(ii) 2012 Share Option Scheme											
Directors											
Mr. Tsui Che Yin, Frank	6,000,000	-	-	386,400	-	-	6,386,400	02.07.2013	0.511	02.07.2013 -01.07.2023	6
Mr. Ko Chun Fung, Henry	3,000,000	-	-	193,200	-	-	3,193,200	02.07.2013	0.511	02.07.2013 -01.07.2023	6
Mr. Tsang Yuen Wai, Samuel	6,000,000	-	-	386,400	-	-	6,386,400	02.07.2013	0.511	02.07.2013 -01.07.2023	6
Mr. Tam Chi Wai, Dennis	6,000,000	-	-	386,400	-	-	6,386,400	02.07.2013	0.511	02.07.2013 -01.07.2023	6
Sub-total:	21,000,000	-	-	1,352,400	-	-	22,352,400				
Substantial shareholder	6,939,000	-	-	446,871	-	-	7,385,871	02.07.2013	0.511	02.07.2013 -01.07.2023	6
Advisor	1,500,000	-	-	96,600	-	-	1,596,600	02.07.2013	0.511	02.07.2013 -01.07.2023	6, 7
Total:	29,439,000	-	-	1,895,871	-	-	31,334,871				

Notes:

- (1) As at 30 June 2014, the total number of issued Shares was 3,145,433,752.
- (2) Upon the completion of the Open Offer on 29 May 2014, the exercise price per Share and number of Shares which may be issued in respect of the outstanding share options have been adjusted pursuant to the terms of the share option schemes adopted on 20 April 2002 and 18 May 2012 respectively, details of which were set out in the announcement of the Company dated 28 May 2014.
- (3) These grants under 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 grants under 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.
- (5) These grants under 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.
- (6) These grants under 2012 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 grant date at stepped annual increments of 25% of the total share options granted.
- (7) 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.
- (8) During the six months ended 30 June 2014, no share options were granted or cancelled under the Old Share Option Scheme and 2012 Share Option Scheme. In respect of the share options exercised during the period, the weighted average closing price of the Shares immediately before the dates on which the share options were exercised was HK\$1.17.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2014, according to the register of interests or short positions in shares required to be kept by the Company under Section 336 of the SFO, other than the interests of the Directors and chief executive of the Company, the following shareholders were interested in 5% or more of the issued share capital of the Company:

Long position in the Shares and underlying Shares of the Company

Name of shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Approximate percentage of issued share capital of the Company
				(Note 1)
Melco LottVentures Holdings Limited (" Melco LV ") (Note 2)	Beneficial owner	1,278,714,329	–	40.65%
Melco Leisure and Entertainment Group Limited (" Melco Leisure ") (Note 3)	Held by a controlled corporation	1,278,714,329	–	40.65%
Melco (Note 4)	Held by controlled corporations	1,278,714,329	–	40.65%
Mr. Ho, Lawrence Yau Lung (" Mr. Ho ") (Note 5)	Held by controlled corporations	1,278,714,329	–	40.65%
	Beneficial owner	–	7,385,871	0.23%
Ms. Lo Sau Yan, Sharen (Note 6)	Held by spouse	1,278,714,329	7,385,871	40.89%

Name of shareholder	Capacity	Number of Shares held	Number of underlying Shares held	Approximate percentage of issued share capital of the Company
				<i>(Note 1)</i>
Global Crossing Holdings Ltd. (" GCH ")	Beneficial owner	195,352,724	–	6.21%
Universal Rich Holdings Limited (" Universal Rich ") <i>(Note 7)</i>	Held by a controlled corporation	195,352,724	–	6.21%
Mr. Chang Tung-Bing <i>(Note 8)</i>	Held by controlled corporations	195,352,724	–	6.21%

Notes:

- (1) As at 30 June 2014, the total number of issued Shares was 3,145,433,752.
- (2) On 11 April 2014, the Company announced that it proposed to raise not less than approximately HK\$652.7 million, before expenses, by way of an Open Offer of not less than 725,224,723 Offer Shares at the subscription price of HK\$0.90 per Offer Share on the basis of three Offer Shares for every ten Shares held by the qualifying shareholders of the Company on 7 May 2014 payable in full upon application. Melco LV has given an irrevocably undertaking to the Company to subscribe for all the Offer Shares to which Melco LV will be entitled under the Open Offer. As a result of the Open Offer, 295,087,920 Offer Shares were issued to Melco LV on 29 May 2014. Thereafter, Melco LV was interested in 1,278,714,329 Shares.
- (3) Melco Leisure was deemed to be interested in 1,278,714,329 Shares through its controlled corporation, Melco LV.
- (4) Melco was deemed to be interested in 1,278,714,329 Shares through its controlled corporations, Melco LV and Melco Leisure.
- (5) Mr. Ho was deemed to be interested in 1,278,714,329 Shares through his controlled corporations, Melco LV, Melco Leisure and Melco. He was also interested in 7,385,871 underlying Shares in respect of the share options granted by the Company.

- (6) Ms. Lo Sau Yan, Sharen is the spouse of Mr. Ho and was deemed to be interested in 1,286,100,200 Shares through the interest of her spouse, Mr. Ho.
- (7) Universal Rich was deemed to be interested in 195,352,724 Shares through its controlled corporation, GCH.
- (8) Mr. Chang Tung-Bing was deemed to be interested in 195,352,724 Shares through his controlled corporations, GCH and Universal Rich.

Save as disclosed above, the Company has not been notified of any other interests or short position in the Shares or underlying Shares of the Company as at 30 June 2014.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2014, none of the Directors or their respective associates had any interest in any business, which competes or may compete, either directly or indirectly, with the business of the Group.

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

The Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2014.

Securities Transactions by Directors

The Company has adopted a code of conduct regarding Directors' securities transactions on terms set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standard of dealings and the Company's code of conduct regarding securities transactions by Directors throughout the six months ended 30 June 2014.

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 comprises three independent non-executive Directors, namely Mr. Tsoi, David (Chairman of the audit committee), Mr. Pang Hing Chung, Alfred and Ms. Chan Po Yi, Patsy and a non-executive Director, namely Mr. Tsui Che Yin, Frank. The audit committee has reviewed the Group's interim report for the six months ended 30 June 2014.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 17.50A of the GEM Listing Rules, the changes in information of Directors which are required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 17.50(2) subsequent to the date of the 2013 Annual Report of the Company are set out below:

Name of Director	Details of Changes
Mr. Ko Chun Fung, Henry	Appointed as Chairman of the executive committee of the Company with effect from 12 May 2014
Mr. Tsang Yuen Wai, Samuel	Appointed as member of the executive committee of the Company with effect from 12 May 2014
Mr. Tam Chi Wai, Dennis	Appointed as member of the executive committee of the Company with effect from 12 May 2014
Mr. Tsoi, David	Retired as independent non-executive director of CSR Corporation Limited, a company listed on the Main Board of the Stock Exchange, with effect from 16 June 2014

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Tsui Che Yin, Frank* (Chairman), Mr. Ko Chun Fung, Henry#, Mr. Tsang Yuen Wai, Samuel#, Mr. Tam Chi Wai, Dennis#, Mr. Tsoi, David+, Mr. Pang Hing Chung, Alfred+ and Ms. Chan Po Yi, Patsy+.

Executive Director

* Non-executive Director

+ Independent Non-executive Director

By Order of the Board
MelcoLot Limited
Ko Chun Fung, Henry
Executive Director and Chief Executive Officer

Hong Kong, 8 August 2014