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MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8198)

THIRD QUARTER RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors of MelcoLot Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to MelcoLot Limited. The directors of MelcoLot Limited, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of MelcoLot Limited (the “**Company**”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the nine months ended September 30, 2010 (the “**Review Period**”) as follows:

Business Review

The Group is principally engaged in the provision of lottery related technologies, systems and solutions in the People’s Republic of China (the “**PRC**”). It is a recognized manufacturer and distributor of high quality, versatile point of sale lottery terminals for the PRC lottery authorities. The Group has a wide retail presence across several provinces by managing a network of retail outlets for sale of lottery tickets, including the increasingly popular skill games (similar to fixed odds betting). The Group is also engaged in the distribution of scratch card tickets for both China Sports Lottery and China Welfare Lottery. In addition to being the PRC licence holder for Intralot S.A.’s (“**Intralot**”) world leading lottery technologies, the Group is also a member of the Nanum Lotto consortium which is the exclusive operator of South Korean national welfare lottery.

Total revenue of the Group during the Review Period increased by 12.5% to HK\$63.7 million (2009: HK\$56.6 million).

Loss from continuing operations amounted to HK\$99.0 million for the Review Period (2009: HK\$99.1 million). The loss included considerable non-cash charges on account of:

- (i) imputed interest expenses on convertible bonds of HK\$55.6 million (2009: HK\$49.2 million); and
- (ii) depreciation and amortization of HK\$17.0 million (2009: HK\$19.6 million).

Share of losses of associates amounted to HK\$2.0 million during the Review Period, arising from two newly acquired associates, namely China Excellent Net Technology Investment Limited (“**China Excellent**”) and ChariLot Company Limited (“**ChariLot**”).

Loss before interest, taxes, depreciation and amortization for the Review Period amounted to HK\$27.0 million (2009: HK\$30.4 million). During the Review Period, employee benefits costs decreased by 7.8% pursuant to streamlining of operations and cost control measures, and amounted to HK\$15.4 million (2009: HK\$16.7 million).

The loss of HK\$9.4 million from discontinued operations disclosed in the nine months ended September 30, 2009 related to the Group’s network system integration operations, which were disposed of in December 2009 to enable the Group to enhance its development efforts for new lottery related growth opportunities.

Acquisitions

On March 5, 2010, the Group completed the acquisition of 35% equity interest in China Excellent, a company incorporated in Hong Kong and engaged in the provision of lottery related technology solutions and management services for mobile lottery business in the PRC, at a consideration of HK\$7.0 million. Of this amount, HK\$3.0 million has been paid as at September 30, 2010 in accordance with the terms of the acquisition. The Group is currently developing the relevant technology platform and solutions for this venture.

On July 2, 2010, the Group acquired a 40% interest in ChariLot, a company incorporated in Hong Kong pursuant to a joint venture agreement entered into between the Group and Calo Investments Limited (“**Calo**”). ChariLot is primarily a vehicle for the new investment in the operation of the lottery business in the PRC. The cash consideration paid by the Group for the acquisition was HK\$10.0 million. Pursuant to the joint venture agreement,

- (i) if ChariLot fails to enter into a supply agreement or other form of agreement to be entered into by ChariLot in relation to the supply of the lottery terminal, provision of technical support, operation consultation and fund raising solution to the potential lottery operator in the PRC on an exclusive basis (the “**Supply Agreement**”) on or before June 30, 2011, Calo is obliged to transfer its entire shareholding, i.e. the remaining 60% shareholdings in ChariLot, to the Group at an aggregate cash consideration of HK\$1.00; or
- (ii) if ChariLot enters into the Supply Agreement on or before June 30, 2011, the Group shall have the right to give a notice to Calo for acquisition of a further 20% stake in ChariLot. Upon receipt of such notice, Calo and the Group shall negotiate in good faith for the consideration which may be settled in a combination of cash and/or shares of the Company.

The acquisition in ChariLot constituted a discloseable transaction for the Company, details of which are set out in the Company’s announcement dated June 21, 2010.

Dividend

No interim dividend has been paid or declared by the Company during the nine months ended September 30, 2010 (2009: Nil).

Outlook

Being the major revenue contributor, the Group's manufacturing arm will continue to adopt a short term low pricing strategy in order to maintain market share as the new equipment procurement cycle for Sports Lottery has not yet been finalized.

Sports Lottery sales revenues are expected to be positively affected by the greater choice available to players as the range of game types allowed by the lottery authorities under the skill game category (similar to fixed odds betting) is expanded. This in turn is expected to have a positive impact on the skill game retail outlets managed by the Group.

The "Shi Shi Cai" game upgrade and multimedia content delivery system project commenced in July 2010 for the municipality of Chongqing, the PRC, is progressing on schedule with completion expected by the year end of 2010.

Paperless lottery sales channels such as mobile and internet are also increasingly experiencing rapid growth in the PRC. The Ministry of Finance of the PRC ("MOF") has been concerned about the need to better regulate these channels and has recently commenced a new initiative to monitor the mobile and internet channels with more active involvement of the MOF in conjunction with the Sports and Welfare Lottery authorities. In this regard, new licensing arrangements are being developed. The Group is already well positioned to service this segment of the industry through its access to the technology solutions and world class best practices, backed up by the strategic shareholder Intralot. The Group will closely monitor developments to appropriately secure lucrative projects. It is expected that under the enhanced regulations, mobile and internet channels will be provided with the impetus for the next phase of growth in the PRC lottery industry.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the nine months ended September 30, 2010

	Notes	Nine months ended September 30,		Three months ended September 30,	
		2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Continuing operations					
Revenue	3	63,714	56,630	28,436	21,360
Changes in inventories of finished goods and work-in-progress		1,598	(17,497)	(3,046)	(7,303)
Purchases of inventories and raw materials consumed		(55,652)	(30,572)	(21,876)	(10,346)
Other income and gains		704	2,021	292	22
Employee benefits costs		(15,437)	(16,748)	(4,571)	(5,423)
Depreciation and amortization		(17,007)	(19,645)	(5,678)	(6,702)
Share of profits/(losses) of jointly controlled entities		(6)	103	257	618
Share of losses of associates		(1,972)	–	(1,634)	–
Other expenses		(19,983)	(24,350)	(6,129)	(10,931)
Finance costs	4	(57,889)	(52,173)	(19,780)	(17,754)
Loss before taxation		(101,930)	(102,231)	(33,729)	(36,459)
Taxation	5	2,924	3,109	912	799
Loss for the period from continuing operations		(99,006)	(99,122)	(32,817)	(35,660)
Discontinued operations	7				
Loss for the period from discontinued operations		–	(9,410)	–	(3,618)
Loss for the period		<u>(99,006)</u>	<u>(108,532)</u>	<u>(32,817)</u>	<u>(39,278)</u>
Loss for the period attributable to:					
Owners of the Company		(95,139)	(100,151)	(31,591)	(36,216)
Non-controlling interests		(3,867)	(8,381)	(1,226)	(3,062)
		<u>(99,006)</u>	<u>(108,532)</u>	<u>(32,817)</u>	<u>(39,278)</u>
Loss per share	8				
From continuing and discontinued operations					
– Basic and diluted (HK cents)		<u>(18.94)</u>	<u>(20.01)</u>	<u>(6.29)</u>	<u>(7.23)</u>
From continuing operations					
– Basic and diluted (HK cents)		<u>(18.94)</u>	<u>(18.13)</u>	<u>(6.29)</u>	<u>(6.51)</u>

NOTES:

(1) BASIS OF PRESENTATION

The quarterly interim financial information has been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “**GEM Listing Rules**”) of The Stock Exchange of Hong Kong Limited. The amounts included in the quarterly interim financial report are computed based on the recognition and measurement requirements in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). However, this quarterly interim financial report does not contain sufficient information to constitute an interim financial report as defined in HKAS 34.

The unaudited consolidated financial results have been prepared on a going concern basis. The Company and its subsidiaries (the “**Group**”) incurred a loss of HK\$99.0 million for the nine months ended September 30, 2010. In preparing the unaudited consolidated financial results, the Directors have carefully reviewed the Group’s financial position, future liquidity and cash flow forecast. In reviewing the Group’s current and future financial position, the Directors have considered the following factors:

- the ability to successfully replace the convertible bonds with equity instruments;
- the ability to successfully capitalize other loans to equity; and
- cost control measures.

The Directors believe the above measures, if successfully implemented, will improve the Group’s financial position and strengthen the capital base of the Group and accordingly, have prepared the unaudited consolidated results on a going concern basis.

(2) SIGNIFICANT ACCOUNTING POLICIES

The quarterly interim report has been prepared under the historical cost convention. The same accounting policies, presentation and methods of computation have been followed in these unaudited consolidated results as were applied in the preparation of the Group’s consolidated financial statements for the year ended December 31, 2009, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations (“**HKFRSs**”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on January 1, 2010. 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 anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the unaudited consolidated results.

(3) **REVENUE**

An analysis of the Group's revenue for the nine months and three months ended September 30, 2010 from continuing operations is as follows:

	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision of management services for distribution of lottery products	8,972	8,885	4,092	3,008
Manufacturing and sales of lottery terminals and point of sales machines	54,742	47,745	24,344	18,352
	<u>63,714</u>	<u>56,630</u>	<u>28,436</u>	<u>21,360</u>

(4) **FINANCE COSTS**

	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations				
Effective interest expenses on convertible bonds	55,581	49,181	19,456	16,746
Interest expenses on other loans	2,308	2,992	324	1,008
	<u>57,889</u>	<u>52,173</u>	<u>19,780</u>	<u>17,754</u>

(5) **TAXATION**

	Nine months ended September 30,		Three months ended September 30,	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operations				
Enterprise Income Tax of the PRC - current period	181	452	123	236
Deferred taxation - current period	(3,105)	(3,561)	(1,035)	(1,035)
Tax (credit)/charge	<u>(2,924)</u>	<u>(3,109)</u>	<u>(912)</u>	<u>(799)</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the nine months ended September 30, 2010 and its corresponding period in 2009.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

(6) **DIVIDEND**

No interim dividend has been paid or declared by the Company during the nine months ended September 30, 2010 (2009: Nil).

(7) **DISCONTINUED OPERATIONS**

On November 5, 2009, the Group entered into a sale and purchase agreement with a related company, in which a director of the Company has beneficial interest, to dispose of Wafer Systems Limited and its subsidiaries (“**Wafer Group**”), which carried out all of the Group’s network system integration operations. The disposal was effected in order to generate cash flows for the expansion of the Group’s lottery business. The disposal was completed on December 30, 2009, on which date control of Wafer Group passed to the acquirer.

The results of the discontinued operations for the nine months and three months ended September 30, 2009, which have been included in the unaudited consolidated financial results, were as follows:

	Nine months ended September 30, 2009 <u>HK\$'000</u>	Three months ended September 30, 2009 <u>HK\$'000</u>
Revenue	178,939	51,325
Changes in inventories of finished goods and work-in-progress	(25,622)	(2,919)
Purchases of inventories and raw materials consumed	(108,750)	(33,006)
Other income and gains	24	14
Employee benefits costs	(20,876)	(7,363)
Depreciation and amortization	(2,086)	(677)
Other expenses	(28,994)	(10,532)
Finance costs	(2,045)	(460)
	<u> </u>	<u> </u>
Loss before taxation	(9,410)	(3,618)
Taxation	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Loss for the period	<u><u>(9,410)</u></u>	<u><u>(3,618)</u></u>

(8) **LOSS PER SHARE**

From continuing and discontinued operations

The calculation of basic and diluted loss per share for the nine months and the three months ended September 30, 2010 is based on the unaudited loss attributable to owners of the Company of approximately HK\$95,139,000 and HK\$31,591,000 (2009: HK\$100,151,000 and HK\$36,216,000) and on the weighted average number of approximately 502,317,232 and 502,621,933 (2009: 500,385,000 and 500,701,000) ordinary shares in issue during the period respectively.

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

From continuing operations

The calculation of basic and diluted loss per share from continuing operations for the nine months and the three months ended September 30, 2010 is based on the unaudited loss from continuing operations attributable to owners of the Company of approximately HK\$95,139,000 and HK\$31,591,000 (2009: HK\$90,741,000 and HK\$32,598,000) respectively and the dominators used are the same as those detailed above for basic and diluted loss per share.

(9) SHARE CAPITAL AND RESERVES

	Attributable to owners of the Company							Non-	
	Share	Share	Share-based	PRC	Convertible	Exchange	Accumulated	Sub-total	Non-controlling
	capital	premium	payment	statutory	bonds equity	reserve	losses		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at January 1, 2009 (audited)	4,994	368,540	16,244	5,589	645,492	37,184	(918,528)	159,515	30,224
Recognition of equity-settled share-based payments	-	-	4,334	-	-	-	-	4,334	-
Issue of ordinary shares upon exercise of share options	14	155	(58)	-	-	-	-	111	-
Exchange differences arising on translation of foreign operations	-	-	-	-	-	4,566	-	4,566	-
Loss for the period	-	-	-	-	-	-	(100,151)	(100,151)	(8,381)
As at September 30, 2009 (unaudited)	5,008	368,695	20,520	5,589	645,492	41,750	(1,018,679)	68,375	21,843
As at January 1, 2010 (audited)	5,008	368,695	22,290	3,543	645,492	37,408	(1,304,501)	(222,065)	20,883
Recognition of equity-settled share-based payments	-	-	3,077	-	-	-	-	3,077	-
Issue of ordinary shares upon exercise of share options	18	228	(89)	-	-	-	-	157	-
Exchange differences arising on translation of foreign operations	-	-	-	-	-	764	-	764	-
Loss for the period	-	-	-	-	-	-	(95,139)	(95,139)	(3,867)
Payment of dividend	-	-	-	-	-	-	-	-	(653)
As at September 30, 2010 (unaudited)	5,026	368,923	25,278	3,543	645,492	38,172	(1,399,640)	(313,206)	16,363

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

During the nine months ended September 30, 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the nine months ended September 30, 2010, none of the Directors or their respective associates had any business or interest in companies that competes or may compete with the business of the Group or any other conflict of interests with the Group.

AUDIT COMMITTEE

The Company has established the Audit Committee in accordance with the GEM Listing Rules to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee comprises three independent non-executive Directors of the Company. The Audit Committee has reviewed the Group's unaudited consolidated results for the nine months ended September 30, 2010.

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

Hong Kong, November 8, 2010

As at the date of this announcement, the Board consists of two executive Directors, namely Mr. Ko Chun Fung, Henry and Mr. Moumouris, Christos, two non-executive Directors, namely Mr. Chan Sek Keung, Ringo 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.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.melcolot.com.