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MelcoLot Limited

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

FINAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 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 of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to MelcoLot Limited. The directors of MelcoLot Limited, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

	<i>Notes</i>	2010 HK\$'000	2009 <i>HK\$'000</i>
Continuing operations			
Revenue	5	80,608	86,110
Changes in inventories of finished goods and work-in-progress		16,924	(22,276)
Purchase of inventories and raw materials consumed		(85,591)	(42,176)
Other income and gains		1,000	1,867
Employee benefits costs		(19,273)	(22,939)
Depreciation and amortisation		(22,009)	(26,115)
Impairment loss on goodwill		(38,791)	(216,938)
Share of losses of associates		(4,743)	–
Share of profits of jointly controlled entities		263	116
Other expenses		(25,457)	(47,773)
Finance costs	7	(78,155)	(69,147)
Loss before taxation		(175,224)	(359,271)
Taxation	8	3,939	3,368
Loss for the year from continuing operations		(171,285)	(355,903)
Discontinued operations			
Loss for the year from discontinued operations	9	–	(41,457)
Loss for the year	10	(171,285)	(397,360)
Other comprehensive income (expense)			
Exchange differences arising on translation of foreign operations		3,382	6,681
Realised on disposal of subsidiaries		–	(6,457)
Total comprehensive expense for the year		(167,903)	(397,136)

	<i>Note</i>	2010 HK\$'000	2009 HK\$'000
Loss for the year attributable to:			
Owners of the Company		(160,908)	(388,019)
Non-controlling interests		(10,377)	(9,341)
		<u>(171,285)</u>	<u>(397,360)</u>
Total comprehensive expense attributable to:			
Owners of the Company		(157,526)	(387,795)
Non-controlling interests		(10,377)	(9,341)
		<u>(167,903)</u>	<u>(397,136)</u>
Loss per share	12		
From continuing and discontinued operations			
Basic and diluted		<u>(HK32.03 cents)</u>	<u>(HK77.53 cents)</u>
From continuing operations			
Basic and diluted		<u>(HK32.03 cents)</u>	<u>(HK69.24 cents)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2010

		2010	2009
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		9,831	12,088
Goodwill		27,903	66,694
Intangible assets		77,277	95,524
Interests in associates		8,257	–
Interests in jointly controlled entities		11,898	11,635
Available-for-sale investment		138,802	138,102
Amount due from a related company			
– due after one year		–	10,000
		273,968	334,043
CURRENT ASSETS			
Inventories		41,219	18,779
Trade and other receivables	13	38,251	39,762
Amounts due from jointly controlled entities		33,362	34,477
Amounts due from related companies			
– due within one year		10,503	20,153
Amount due from an associate		1,000	–
Bank balances and cash		43,978	61,555
		168,313	174,726
CURRENT LIABILITIES			
Trade and other payables	14	68,208	42,004
Amounts due to related companies		10,540	8,029
Amount due to an associate		6,139	–
Tax payable		2,321	10,385
Loan from a related company		80,000	–
		167,208	60,418
NET CURRENT ASSETS			
		1,105	114,308
		275,073	448,351

	2010 HK\$'000	2009 <i>HK\$'000</i>
CAPITAL AND RESERVES		
Share capital	5,026	5,008
Reserves	(380,160)	(227,073)
Equity attributable to owners of the Company	(375,134)	(222,065)
Non-controlling interests	9,853	20,883
TOTAL CAPITAL DEFICIENCY	(365,281)	(201,182)
NON-CURRENT LIABILITIES		
Loan from a related company	–	80,000
Convertible bonds	640,354	565,594
Deferred taxation	–	3,939
	640,354	649,533
	275,073	448,351

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since May 17, 2002. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The directors are of the opinion that the functional currency of the Company is Renminbi (“RMB”), after taking into consideration that the primary economic environment in which the Company operates is the People’s Republic of China (the “PRC”). The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) for the convenience of the shareholders, as the Company is listed in Hong Kong.

The Company acts as an investment holding company. Its subsidiaries are principally engaged in lottery business in the PRC.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company and its subsidiaries (the “Group”) incurred a loss of approximately HK\$171,285,000 for the year ended December 31, 2010 and as at that date, the Group had net liabilities of approximately HK\$365,281,000. In preparing the consolidated financial statements, the directors of the Company 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 of the Company have considered the following factors:

- The ability to successfully restructure or replace the convertible bonds with equity instruments;
- The ability to successfully restructure or capitalise the loan from a related company to equity;
- New business opportunities; and
- Cost control measures.

The directors of the Company believe that, taking into account of the above factors, the Group’s financial performance and liquidity will be improved and its financial position and the capital base will be strengthened and accordingly, have prepared the consolidated financial statements on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following new and revised Standards and Interpretations (“new and revised Standards and Interpretations”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised 2008)	Business Combinations
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

HKAS 27 (Revised 2008) Consolidated and Separate Financial Statements and HKFRS 3 (Revised 2008) “Business Combination”

The requirements in HKAS 27 (Revised 2008) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are applied prospectively by the Group on or after January 1, 2010.

The impact of the adoption of HKAS 27 (Revised 2008) was that total comprehensive expense of a subsidiary was allocated to the non-controlling interests even when this resulted in the non-controlling interests having a deficit balance. The adoption of the accounting policy has resulted in a decrease in loss for the year attributable to owners of the Company by HK\$4,891,000 and an increase in loss for the year attributable to non-controlling interests by the same amount. In addition, the basic and diluted loss per share was decreased by HK0.97 cents.

The Group also applies HKFRS 3 (Revised 2008) “Business Combination” prospectively to business combinations for which the acquisition date is on or after January 1, 2010. As there was no transaction during the current year in which HKFRS 3 (Revised 2008) is applicable, the application of HKFRS 3 (Revised 2008) and the consequential amendments to other HKFRSs had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised 2008) and the consequential amendments to the other HKFRSs are applicable.

Except as described above, the application of the new and revised Standards and Interpretations in the current year had had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 ¹
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ²
HKFRS 9	Financial Instruments ³
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ⁴
HKAS 24 (Revised 2009)	Related Party Disclosures ⁵
HKAS 32 (Amendments)	Classification of Rights Issues ⁶
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement ⁵
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁷

¹ Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.

² Effective for annual periods beginning on or after July 1, 2011.

³ Effective for annual periods beginning on or after January 1, 2013.

⁴ Effective for annual periods beginning on or after January 1, 2012.

⁵ Effective for annual periods beginning on or after January 1, 2011.

⁶ Effective for annual periods beginning on or after February 1, 2010.

⁷ Effective for annual periods beginning on or after July 1, 2010.

HKFRS 9 “Financial Instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial Instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

HKFRS 9 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. There will be no impact to the Group as there are no such financial liabilities.

The directors anticipate that HKFRS 9 will be adopted in the Group’s consolidated financial statements for financial year ending December 31, 2013 and that the application of the new standard might have a significant impact on amounts reported in respect of the Group’s available-for-sale investment, which is measured at cost less impairment at the end of each reporting period before the application of the new standard.

The directors of the Company anticipate that the application of the other new and revised Standards and Interpretations will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

5. REVENUE

An analysis of the Group's revenue for the year from continuing operations is as follows:

	2010 HK\$'000	2009 HK\$'000
Lottery business:		
Provision of management services for distribution of lottery products	12,169	11,101
Manufacturing and sales of lottery terminals and point of sales ("POS") machines	68,439	75,009
	<u>80,608</u>	<u>86,110</u>

6. SEGMENT INFORMATION

The Group disposed of its network system integration business in 2009. After the disposal, the Group's revenue and contribution to loss were solely derived from provision of management services for distribution of lottery products and manufacturing and sales of lottery terminals and POS machines. The chief operating decision makers review the internally reported information for the lottery business as a whole and review 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 lottery business. No segment analysis is presented other than entity-wide disclosures.

The revenue of product and service is set out in note 5.

Geographical information

The Group's operations are carried out in the PRC and revenue from external customers based on the location of goods delivered and are derived in the PRC. All the non-current assets (excluding financial instruments) are located in the PRC.

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

The largest customer (2009: each of the two of the largest customers) of the Group contributed more than 10% of the Group's revenue for the current year. For the year ended December 31, 2010, revenue of HK\$67,009,000 is attributed to this customer. For the year ended December 31, 2009, revenue of HK\$45,462,000 and HK\$22,200,000 were attributed to those two customers.

7. FINANCE COSTS

	2010 HK\$'000	2009 HK\$'000
Continuing operations:		
Interest on:		
Loan from a related company wholly repayable within five years	2,511	4,000
Effective interest expense on convertible bonds	75,644	65,147
	<u>78,155</u>	<u>69,147</u>

8. TAXATION

	2010 HK\$'000	2009 HK\$'000
Continuing operations:		
PRC Enterprise Income Tax		
– Current year	–	1,228
Deferred taxation		
– Current year	(3,939)	(4,596)
	<u>(3,939)</u>	<u>(3,368)</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No tax is payable on the profit for the year arising in Hong Kong since the Hong Kong subsidiaries have incurred losses from operations for both years.

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 January 1, 2008 onwards.

A PRC subsidiary of the Group was approved as enterprise that satisfied the condition as advanced-technology development enterprise and obtained the Certificate of High New Technology Enterprise (the “Certificate”) in 2007. Pursuant to an approval by the relevant PRC tax authority, that subsidiary was granted advanced-technology relief from PRC Enterprise Income Tax for three years which commenced from the year of grant, followed by 50% relief for the next three years, under the condition that the subsidiary able to renew the Certificate by each year. The first year of tax exemption granted to that subsidiary was year 2007 and the subsidiary continued to enjoy the preferential treatment until 2009. During the year, the subsidiary was unable to renew the Certificate and therefore subject to the domestic income tax rate of 25%.

9. 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 a subsidiary, 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 the Wafer Group passed to the acquirer.

The loss from the discontinued operations is analysed as follows:

	2009 HK\$’000
Loss of network system integration operations	(26,820)
Loss on disposal of network system integration operations	(14,637)
	(41,457)

The results of the network system integration operations for the period from January 1, 2009 to December 30, 2009 were as follows:

	1.1.2009 to 12.30.2009 HK\$’000
Revenue	240,319
Changes in inventories of finished goods and work-in-progress	(23,497)
Purchase of inventories and raw materials consumed	(174,534)
Other income and gains	1,142
Employee benefits costs	(29,276)
Depreciation and amortisation	(2,646)
Impairment loss on intangible assets	(8,412)
Other expenses	(24,997)
Finance costs	(2,919)
Loss before taxation	(24,820)
Taxation	(2,000)
Loss for the period	(26,820)

Loss for the period from discontinued operations included the following:

	1.1.2009 to 12.30.2009 HK\$'000
Amortisation of intangible assets	1,223
Depreciation of property, plant and equipment	1,423
Total depreciation and amortisation	2,646
Directors' emoluments, including retirement benefit scheme contributions	1,542
Other staff costs:	
salaries and other benefits	23,782
retirement benefit scheme contributions	3,952
Total employee benefit expenses	29,276
Auditor's remuneration	460
Allowance for inventories	1,036
Impairment loss on intangible assets	8,412
Research and development costs recognised as an expense	452
Operating lease rentals in respect of office properties	3,867
Net foreign exchange loss	77
and after crediting:	
Bank interest income	310
Reversal of impairment loss on trade receivables	2,342

During the year ended December 31, 2009, Wafer Group contributed to the Group's cashflows a cash outflow of HK\$46,115,000 to the Group's net operating cash flows, cash inflow of HK\$9,261,000 in respect of investing activities and cash outflow of HK\$6,255,000 in respect of financing activities.

10. LOSS FOR THE YEAR

Continuing operations

Loss for the year from continuing operations has been arrived at after charging:

	2010 HK\$'000	2009 HK\$'000
Amortisation of intangible assets	18,323	19,123
Depreciation of property, plant and equipment	3,686	6,992
Total depreciation and amortisation	22,009	26,115
Directors' emoluments	4,028	4,490
Other staff costs:		
Salaries and other benefits	11,215	12,951
Retirement benefit scheme contributions	1,190	1,430
Share-based payments	2,840	4,068
Total employee benefit expenses	19,273	22,939
Auditor's remuneration	1,170	1,040
Allowance for inventories	2,106	–
Write-off of other receivables	545	522
Impairment loss on loan receivable	–	3,890
Loss on disposal of/write-off of property, plant and equipment	596	8,498
Operating lease rentals in respect of land and buildings	4,134	5,013
Donation	2,280	–
Net foreign exchange loss	166	–
and after crediting:		
Bank interest income	78	119
Loan and other interest income	623	5
Net foreign exchange gain	–	449

11. DIVIDENDS

No dividend was declared or proposed during 2010, nor has any dividend been proposed since the end of the reporting period (2009: Nil).

12. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year is based on the loss attributable to the owners of the Company of HK\$160,908,000 (2009: HK\$388,019,000) and on the weighted average number of 502,394,034 (2009: 500,495,926) ordinary shares in issue during the year.

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 in 2009

The calculation of the basic and diluted loss per share in 2009 from continuing operations attributable to the owners of the Company is based on the following data:

Loss per share are calculated as follows:

	2009 HK\$'000
Loss for the year attributable to owners of the Company	(388,019)
Less: loss for the year from discontinued operations	41,457
Loss for the purpose of basic and diluted loss per share from continuing operations	(346,562)

The denominators used are the same as those detailed above for basic and diluted loss per share.

From discontinued operations in 2009

The basic and diluted loss per share for the discontinued operations in 2009 was HK8.28 cents per share based on the loss for the year from discontinued operations of HK\$41,457,000 and the denominators detailed above for basic and diluted loss per share.

13. TRADE AND OTHER RECEIVABLES

	2010 HK\$'000	2009 HK\$'000
Trade receivables	13,260	13,580
Other receivables	23,631	24,748
Prepayments and deposits	1,360	1,434
	38,251	39,762

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

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Within 30 days	5,831	8,847
31 – 90 days	371	3
91 – 180 days	612	5
181 – 365 days	407	51
Over 365 days	6,039	4,674
	13,260	13,580

Before accepting any new customers, the Group reviews the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. The Group maintains a defined credit policy to assess the credit quality of the trade customers. The collection is closely monitored to minimise any credit risk associated with these trade debtors.

Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK\$7,058,000 (2009: HK\$4,730,000) which were past due at the end of the reporting period but not considered as impaired. Majority of the trade receivables that were neither past due nor impaired had no default repayment history. Included in trade receivables are amounts of HK\$5,960,000 (2009: HK\$9,257,000) due from non-controlling shareholders of a subsidiary. The amounts are unsecured, interest-free and repayable according to credit terms granted to the non-controlling shareholders.

14. TRADE AND OTHER PAYABLES

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Trade payables (<i>note</i>)	62,220	31,311
Other payables	4,963	4,702
Accruals	1,025	5,991
	68,208	42,004

The trade payables presented based on the invoice date at the end of the reporting period are aged within 30 days for both years.

Note: Included in trade payables are amounts of HK\$62,128,000 (2009: HK\$31,265,000) due to non-controlling shareholders of a subsidiary. The amounts are unsecured, interest-free and repayable according to credit terms granted by the non-controlling shareholders.

CEO'S STATEMENT

TO OUR SHAREHOLDERS

For and on behalf of the board of directors (the “Board”), I present the annual results of MelcoLot Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended December 31, 2010.

During the year, the Company trimmed down losses attributable to the owners of the Company to HK\$160.9 million from HK\$388.0 million in the prior year. These losses which were primarily comprised of non-cash charges for impairment loss on goodwill, imputed interest on convertible bonds, and depreciation and amortisation expenses amounting to approximately HK\$136.4 million (2009: HK\$308.1 million), were of a non-operational nature and will not adversely affect the cash flow or current assets of the Group.

Details of the Group's financial performance during the year are discussed further under the Management Discussion and Analysis section.

BUSINESS REVIEW

Following the completion of the disposal of the network system integration business on December 30, 2009, the Group focused its efforts on its core lottery business. Losses for the year were significantly reduced despite weak market conditions faced by the manufacturing arm of the business, which at present, comprises the largest contributor to the Group's revenues.

The Group is a prominent supplier of high quality, point-of-sales equipment for the China Sports Lottery Administration Centre (the “CSLA”). Market demand for the Company's point-of-sales terminals lessened considerably due to a delay in the commencement of CSLA's new procurement cycle. As a result, the Group adopted a low margin strategy to maintain market share and positioning, however, its top and bottom lines were inevitably impacted by these market conditions.

The Group's venue management consultancy business was streamlined for greater efficiency. On the technology and services side, the Group began work on a contract for Chongqing Welfare Lottery Issuing Centre to supply, deliver and install the LOTOS Horizon system. The aim was to create, display and manage rich, multimedia content at multiple, geographically dispersed lottery venues under a five-year upgrade agreement for ‘Shi Shi Cai’, a popular high frequency lottery game.

During the year, the Group also acquired a 35% interest in China Excellent Net Technology Investment Limited (“China Excellent”), a provider of technology solutions and management services for mobile lottery businesses in the People's Republic of China (the “PRC”). In addition, the Group acquired a 40% interest in ChariLot Company Limited (“ChariLot”), which specializes in securing lottery supply and service opportunities in the PRC.

Overseas, the Group's investment in the South Korean welfare lottery operation, Nanum Lotto, Inc., proved rewarding. Nanum Lotto, Inc., the government authorized consortium with an exclusive licence to operate the South Korean national welfare lotto games, showed steady growth in revenues and profitability during the year.

PROSPECTS

It is expected that the lottery industry in China will continue to expand year-on-year with the demand for advanced lottery terminals, systems and technologies accelerating in order to cope with the rapid growth in the industry.

With the expected launch of CSLA's new procurement cycle, the Group anticipates a rise in market demand for point-of-sales terminals. This should have a positive impact on the Group's manufacturing activities since it is safe to assume that orders previously deferred will be placed shortly after the new procurement cycle begins.

Sports lottery sales revenues are projected to receive a boost due to the addition and variety of more popular games offered to players by the lottery authorities under the skill game category (similar to fixed odds betting). Furthermore, new broadcast and marketing initiatives in the market are expected to result in sales growth and have a positive impact on the Group's venue management consultancy business.

Paperless lottery sales channels such as mobile and internet are gaining momentum and are profitable avenues for rapid market expansion. The Ministry of Finance of the PRC ("MOF") has expressed concern about the need to better regulate these channels and, as a result, has recently commenced new initiatives to monitor mobile and internet channels more actively in conjunction with the sports and welfare lottery authorities. Under the strengthened regulations, mobile and internet channels will be provided the impetus for the next phase of orderly growth in the PRC lottery industry. The Group is already well-positioned to service this segment of the industry through its access to cutting-edge, technology solutions and world-class, best practices supported by its strategic shareholder, Intralot S.A.. Intralot S.A. offers custom-made integrated solutions that ensure maximum efficiency and absolute security. It has a reputation for advanced product development standards and extensive experience in operating lottery games worldwide.

The investments in China Excellent and ChariLot as well as the contract in Chongqing are expected to be valuable stepping stones for the Group to deploy its software related capabilities for lottery projects. On the one hand, the joint venture partners and their business associates already have established business networks in the lottery industry in China, enabling the Group to gain additional business relationships with key industry players in China. On the other hand, existing projects and contracts under development will serve as a basis for securing additional projects in various provinces.

As the markets are increasingly regulated by the government, the Group will be focused upon actively pursuing selected projects in China in which it can gain competitive advantage by virtue of its access to industry leading software and security solutions.

Nanum Lotto, Inc. in South Korea is expected to continue its steady growth in profitability. The Group is also evaluating profitable opportunities in other Asian countries.

CONCLUSION

The management team remains inexorably committed and focused on the success of the Group. I am confident that our relentless efforts to identify lucrative opportunities and strengthen our infrastructure will enable us to gain a competitive edge in the industry. The fruitful investments made in prior years, combined with the promising developments within the lottery industry, will no doubt work in our favor as we advance ahead on the path of growth. With the continued faithful support of our shareholders, customers, suppliers, bankers, and business partners, I look forward to building the Company into a successful corporation, with the wise counsel of the Board and the support of all staff members, in the years ahead.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year under review, the Group's losses were significantly reduced to HK\$171.3 million, a decrease of 57% from HK\$397.4 million in 2009. This mainly included the following non-cash items which did not adversely affect the Group's cash flow:

- (i) One-off impairment loss on goodwill which was reduced to HK\$38.8 million (2009: HK\$216.9 million) in relation to acquisitions of subsidiaries in previous years;
- (ii) Imputed interest on convertible bonds amounting to HK\$75.6 million (2009: HK\$65.1 million) due to the liability component of the convertible bonds carried at amortised cost by using the effective interest method; and
- (iii) Depreciation and amortisation expenses of property, plant and equipment and intangible assets of HK\$22.0 million (2009: HK\$26.1 million).

Basic loss per share from continuing operations for the year ended December 31, 2010 reduced 54% to HK32.03 cents (2009: HK69.24 cents).

Revenue of the Group slightly decreased by 6%, amounting to HK\$80.6 million (2009: HK\$86.1 million). The Group continues to be engaged in the lottery business. The subsidiaries of the Company are engaged in various lottery related businesses and ventures in the People's Republic of China (the "PRC") and other Asian countries, as well as in the manufacturing of lottery terminals for sports lottery businesses in the PRC.

Provision of management services for distribution of lottery products

Revenues from the provision of management services for the distribution of lottery products improved by 10%, amounting to HK\$12.2 million (2009: HK\$11.1 million), which was primarily generated by the management of lottery shops and the distribution of scratch cards. The Group manages one of the largest lottery distribution networks in the PRC. The Group also benefited from various opportunities related to the provision of new technologies and platforms through its technology license from a substantial shareholder of the Company, Intralot S.A., one of the leading providers of integrated gaming systems of lottery organizations worldwide and which is listed on the Athens Exchange.

On July 15, 2010, the Group signed a supply agreement with Intralot S.A. (the “Supply Agreement”) in which Intralot S.A. agreed to advise on the supply, delivery and installation of a multimedia content delivery system for the high frequency game, “Shi Shi Cai”, in the municipality of Chongqing, the PRC for US\$1.0 million (equivalent to approximately HK\$7.9 million). The Directors are confident that the Supply Agreement would benefit the Group due to Intralot S.A.’s extensive experience and advanced product development standards in operating lottery games. Details of the Supply Agreement are set out in the Company’s announcement dated July 15, 2010.

Manufacturing and sales of lottery terminals

The Group also generated income from the manufacturing and sales of lottery terminals, amounting to HK\$68.4 million for the year ended December 31, 2010 (2009: HK\$75.0 million). The decrease was due to the deferred orders from the exclusive sports lottery operator, China Sports Lottery Administration Centre (“CSLA”). The Group adopted a short-term, low-pricing strategy in order to maintain market share as CSLA’s new equipment procurement cycle had not yet been finalized. The Group is working with another substantial shareholder of the Company, Firich Enterprises Co., Ltd. (“Firich”), which is listed on the Taiwan Gre Tai Securities Market, to develop a new line of high quality and durable lottery terminals. Firich, a leading worldwide point-of-sales system manufacturer, is able to provide procurement, technical, and research and development support for the Group to create newer models of lottery terminals.

The Group has further streamlined its operations and imposed tight cost control measures in all applicable areas. For the year ended December 31, 2010, employee benefits costs amounted to HK\$19.3 million (2009: HK\$22.9 million), which represented a decrease of 16% year-on-year. Other administrative expenses for the year dropped to HK\$25.5 million (2009: HK\$47.8 million), representing a massive decrease of 47% compared to the corresponding period in 2009.

A tax credit of HK\$3.9 million for the year (2009: tax credit of HK\$3.4 million) was principally due to a deferred tax credit arising from the fair value adjustments of intangible assets on business combination in previous years.

A loss of HK\$41.5 million from discontinued operations in 2009 related to the Group's network system integration operations, which were disposed of in December 2009 to enable the Group to focus on its lottery related growth opportunities.

SIGNIFICANT INVESTMENTS HELD

Available-for-sale investment

At December 31, 2010, the available-for-sale investment with a carrying amount of HK\$138.8 million (2009: HK\$138.1 million) represented a 14% equity interest in Nanum Lotto, Inc., a consortium incorporated in South Korea and formed by renowned international and Korean partners that possess an exclusive license to operate nationwide lotteries in South Korea. No dividend was received from the available-for-sale investment for the year ended December 31, 2010 (2009: Nil).

Jointly controlled entities

During the year, the share of profits of jointly controlled entities amounted to HK\$263,000 (2009: HK\$116,000), contributed primarily by Beijing Telenet Information Technology Limited ("BTI") and indirectly owned as 52.5% by the Group. BTI, one of the largest authorised lottery terminal distributors approved by CSLA, is engaged in the distribution of lottery terminals mainly supplied by the Group in the PRC.

ACQUISITIONS

On March 5, 2010, the Group acquired a 35% equity interest in China Excellent Net Technology Investment Limited ("China Excellent"), a company incorporated in Hong Kong and engaged in the provision of lottery related technology solutions and management services for mobile lottery businesses in the PRC, at a consideration of HK\$7.0 million. Of this amount, HK\$3.0 million has been paid as at December 31, 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 completed the acquisition of a 40% equity interest in ChariLot Limited ("ChariLot"), a company incorporated in Hong Kong pursuant to a joint venture agreement entered into between the Group and an independent third party, Calo Investments Limited. The cash consideration for the acquisition was HK\$10.0 million, which was funded by the Group's internal resources. ChariLot is intended primarily as a vehicle for the new investment in the lottery business and will be principally engaged in supplying terminals and providing technical support and consultancy services in connection with the lottery business in the PRC. The Directors believe the joint venture partner and its ultimate shareholders have established business networks relating to the lottery industry in the PRC. The formation of the joint venture will have a synergic effect for the Group to expand its lottery business in the PRC. The acquisition constituted a discloseable transaction for the Company, details of which are set out in the Company's announcement dated June 21, 2010.

Share of losses of associates amounted to HK\$4.7 million during the year, arising from two newly acquired associates, China Excellent and ChariLot, mostly for the business development expenditure.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet meticulously and maintain conservative policies in cash and financial management. Surplus funds were placed on interest-bearing deposits with banks. As at December 31, 2010, bank balances and cash, denominated principally in Hong Kong dollars and Renminbi, amounted to HK\$44.0 million (2009: HK\$61.6 million). The decline during the year was mainly due to investments in two newly acquired associates, China Excellent and ChariLot. On a net basis, cash used in operating activities amounted to HK\$27.6 million for the year 2010, which was reduced 56% compared to HK\$62.3 million in 2009.

The Group generally financed its operations and serviced its debts with its internal resources, a loan from a related company and convertible bonds. As at December 31, 2010, net current assets of the Group dropped to HK\$1.1 million (2009: HK\$114.3 million) after reclassification of a loan of HK\$80 million from non-current liabilities to current liabilities. The loan is repayable on July 14, 2011, bears interest at 1% per annum and due to a related company beneficially owned by two substantial shareholders of the Company, namely Melco International Holdings Limited (“Melco”), which has shares listed on the Stock Exchange of Hong Kong Limited, and Firich. The loan has been further extended one year to July 14, 2012 with other terms remain unchanged, subsequent to the end of reporting period.

As at December 31, 2010, the Group carried a capital deficiency attributable to the owners of the Company amounting to HK\$375.1 million (2009: HK\$222.1 million), due to the liability component of the convertible bonds amounting to HK\$640.4 million (2009: HK\$ 565.6 million) and the accumulated losses generated by non-cash accounting charges. The convertible bonds, held entirely by three substantial shareholders of the Company, Melco, Intralot S.A. and Firich, are denominated in Hong Kong dollars. They bear interest at 0.1% per annum and entitle the holders to convert them into ordinary shares of the Company within five years from the date of issue, subject to the terms and conditions of the instruments. If the convertible bonds have not been converted, they will become due for redemption on maturity dates of December 12, 2012 and December 8, 2013 for the principal amounts of HK\$606.8 million and HK\$277.2 million, respectively.

The Directors have carefully reviewed the Group’s financial position, future liquidity and the cash flow forecast. The Group is in negotiations with the substantial shareholders on possible new share issues and debt restructuring as necessary. Provided that these measures are successful and can effectively improve the liquidity position of the Group, the Directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they arise in the foreseeable future.

At December 31, 2010, the Group had capital commitments of HK\$11.9 million (2009: Nil), contracted but not provided for, in the consolidated financial statements.

In the opinion of the Directors, the Company had no reserves available for distribution as at December 31, 2010 and 2009.

CHARGES ON GROUP ASSETS

The convertible bonds of the Company are secured by the shares of certain subsidiaries of the Company as at December 31, 2010.

FOREIGN EXCHANGE EXPOSURE

As at December 31, 2010, all assets and liabilities of the Group were denominated in United States dollars, Hong Kong dollars, Renminbi and Korean Won. During the year, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

OUTLOOK

According to Ministry of Finance of the PRC (“MOF”), national annual lottery sales reached RMB166.2 billion in 2010, up 25.5% from 2009, due mostly to the stream of new products like single match skill games and video lottery terminals. It is anticipated that the lottery market in the PRC will continue to grow as the sales figure are still considerably below those seen in more developed markets worldwide in per capita terms. In this respect, the demand for advanced lottery terminals, systems and technologies is expected to accelerate in order to cope with the rapid development in the industry.

The Group has made steady progress in the China lottery market during the year. In terms of welfare lottery, the Group commenced work on an upgrade project for the supply of a multimedia content delivery system for the high frequency game “Shi Shi Cai” in Chongqing Municipality with the support of Intralot S.A.. In terms of sports lottery, the range of game types under the single match skill game category is expanding. This expansion is expected to have a positive effect on the growth of lottery sales revenues, benefiting the Group’s skill game distribution networks and related services.

Paperless lottery sales channels are also anticipated to experience growth in the PRC. The new regulations in regards to mobile and internet lottery promulgated by MOF in September 2010 are expected to be supportive of the growth of these platforms. In January 2011, the Group increased the registered capital of a subsidiary in Shandong Province in order to obtain the telephone lottery license, as required by the new regulations. In the long term, the Group aims to capitalize on this market development and leverage its access to the world-class lottery technologies of Intralot S.A. through its licensing agreements for the China market.

The Group continues to proactively expand its lottery business in the PRC and other Asian countries. The acquisition of two associates, China Excellent and ChariLot, will not only boost the Group's ability to capture a larger share of the expanding lottery market, but also enable it to establish business relationships with key lottery industry players in the PRC. The Directors believe that the connection will be a crucial stepping stone for the Group to deploy and access more beneficial opportunities in the lottery business in the PRC.

Beyond China, the Group's investment in Nanum Lotto, Inc., the exclusive operator of the national lottery in South Korea, is showing promising progress with steady increases in revenue and profitability.

EMPLOYEE INFORMATION

As at December 31, 2010, the Group had a total of 91 full-time employees (2009: 129) after we reconfigured the operations in China. The Group continues to provide remuneration package to employees according to market practices and past performance. In addition to basic remuneration, the Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option schemes and staff training program.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at December 31, 2010.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company ("AC") reviewed the 2010 consolidated financial statements in conjunction with the external auditor. Based on this review and discussions with the management, the AC is satisfied that the consolidated financial statements have been prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended December 31, 2010.

CORPORATE GOVERNANCE

The Company applies the principles set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the GEM Listing Rules to maintain a sound and effective system of checks and balance and internal controls in the leadership, executive management and business operations of the Group. In practising corporate governance in line with, sometimes exceeding, the Code provisions, the Board is conscientious for the benefits of its shareholders and the investing public. During the year ended December 31, 2010 under review, the Company complied with all the provisions on the Code contained in Appendix 15 to the GEM Listing Rules and, where appropriate, also the recommended best practices.

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

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

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website at www.melcolot.com and the HKExnews website at www.hkexnews.hk. The 2010 Annual Report will be available on both websites and despatched to shareholders of the Company on or about Thursday, March 31, 2011.

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

Hong Kong, March 23, 2011

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.