

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



MelcoLot Limited

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

FIRST QUARTER RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2011

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.*

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 three months ended March 31, 2011 (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 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.

During the Review Period, total revenue of the Group was HK\$14.0 million (2010: HK\$10.0 million), representing an increase of 40.0%. The increase was mainly due to higher sales of lottery terminals during the Review Period, which is because of increase in demand from expansion of skill game lottery shops by China Sports Lottery.

Loss for the period amounted to HK\$33.6 million for the Review Period (2010: HK\$34.8 million), after charging non-cash expenses including:

- (i) imputed interest on convertible bonds of HK\$20.6 million (2009: HK\$17.7 million) due to the liability component of the convertible bonds carried at amortized cost by using the effective interest method; and
- (ii) depreciation and amortization expenses of property, plant and equipment and intangible assets of HK\$1.6 million (2010: HK\$5.7 million).

Loss before interest, taxes, depreciation and amortization for the Review Period amounted to HK\$11.0 million (2009: HK\$11.4 million), which represented an improvement of 4%. During the Review Period, the Group has further streamlined the operations, and imposed tight cost control measures in all applicable areas. Other administrative expenses decreased by 2.6% to HK\$7.4 million (2010: HK\$7.6 million) for the Review Period.

Dividend

The Directors do not recommend the payment of an interim dividends for the three months ended March 31, 2011 (2010: Nil). No dividends were paid during the period.

Outlook

The Group expects a rise in market demand with the anticipated commencement of China Sports Lottery's equipment procurement cycle this year. This should have a positive impact on the Group's manufacturing activities as orders previously deferred are expected to be placed shortly after the new procurement cycle commences.

Sports Lottery retail sales revenues are expected to rise with the anticipated inclusion of a variety of popular game types under Sports Lottery's skill games (similar to fixed odds betting) portfolio. In addition, new marketing and broadcast initiatives in the market are expected to provide additional sales growth. These are positive factors for the Group's venue management consultancy business.

With regard to internet lottery sales, the PRC government has recently issued a pronouncement to invalidate the prior prohibition of sales through the internet. For the present time, this implies that lottery sales via the internet are to be regarded under the overall lottery regulations rather than prohibited under specific regulation, and it is expected that the government is paving the way for orderly development of this sales channel. The Group is carefully monitoring the situation to identify opportunities that could be capitalized upon.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended March 31, 2011

		(Unaudited) Three months ended March 31,	
	Notes	2011 HK\$'000	2010 HK\$'000
Revenue	3	14,010	9,963
Changes in inventories of finished goods and work-in-progress		339	(7,272)
Purchases of inventories and raw materials consumed		(11,068)	(626)
Other income and gains		278	272
Employee benefits costs		(5,852)	(5,570)
Depreciation and amortization		(1,551)	(5,666)
Share of losses of associates		(904)	(71)
Share of losses of jointly controlled entities		(319)	(487)
Other expenses		(7,440)	(7,649)
Finance costs	4	(20,819)	(18,694)
Loss before taxation		(33,326)	(35,800)
Taxation	5	(225)	1,035
Loss for the period		<u>(33,551)</u>	<u>(34,765)</u>
Loss for the period attributable to:			
Owners of the Company		(32,207)	(33,131)
Non-controlling interests		<u>(1,344)</u>	<u>(1,634)</u>
		<u>(33,551)</u>	<u>(34,765)</u>
Loss per share	7		
– Basic and diluted		<u>(HK6.40 cents)</u>	<u>(HK6.60 cents)</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 of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”). 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 Group incurred a loss of approximately HK\$33,551,000 for the three months ended March 31, 2011. In preparing the unaudited consolidated financial results, the directors of the Company have reviewed the Group’s financial and liquidity position, taking the following factors into account:

- The possibility of restructuring or replacing the convertible bonds with equity instruments;
- The possibility of restructuring or capitalizing the loan from a related company to equity;
- The possibility of new business opportunities; and
- Cost control measures.

The directors of the Company believe that, taking into account of the above factors, it is appropriate for the Group to prepare the unaudited consolidated financial results on a going concern basis.

(2) SIGNIFICANT ACCOUNTING POLICIES

The quarterly interim report has been prepared under the historical cost convention. The accounting policies adopted are consistent with those followed in the preparation of the Group’s financial statements for the year ended December 31, 2010, 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, 2011. 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 early applied the new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the unaudited consolidated financial results.

(3) REVENUE

An analysis of the Group's revenue for the three months ended March 31, 2011 is as follows:

	Three months ended March 31,	
	2011	2010
	HK\$'000	HK\$'000
Lottery business:		
Provision of management services for distribution of lottery products	3,618	2,354
Manufacturing and sales of lottery terminals and point of sales machines	10,392	7,609
	14,010	9,963

(4) FINANCE COSTS

	Three months ended March 31,	
	2011	2010
	HK\$'000	HK\$'000
Interest on:		
Effective interest expenses on convertible bonds	20,622	17,708
Loan from a related company wholly repayable within five years	197	986
	20,819	18,694

(5) TAXATION

	Three months ended March 31,	
	2011	2010
	HK\$'000	HK\$'000
Enterprise Income Tax of the PRC		
– Current period	225	–
Deferred taxation		
– Current period	–	(1,035)
Tax charge/(credit)	225	(1,035)

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the three months ended March 31, 2011 and its corresponding period in 2010.

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

(6) DIVIDEND

No interim dividends have been paid or declared by the Company during the three months ended March 31, 2011 (2010: Nil).

(7) LOSS PER SHARE

The calculation of basic loss per share for the three months ended March 31, 2011 is based on the unaudited loss attributable to owners of the Company of approximately HK\$32,207,000 (2010: HK\$33,131,000) and on the weighted average number of approximately 502,844,266 (2010: 501,697,675) ordinary shares in issue during the period.

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.

(8) SHARE CAPITAL AND RESERVES

	Attributable to owners of the Company									
	Share capital	Share premium	Share-based payment reserve	PRC statutory reserves	Convertible bonds equity 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	HK\$'000
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	(201,182)
Recognition of equity-settled share-based payments	-	-	1,224	-	-	-	-	1,224	-	1,224
Issue of ordinary shares upon exercise of share options	18	228	(89)	-	-	-	-	157	-	157
Exchange differences arising on translation of foreign operations	-	-	-	-	-	1,386	-	1,386	-	1,386
Loss for the period	-	-	-	-	-	-	(33,131)	(33,131)	(1,634)	(34,765)
Dividend recognized as distribution to non-controlling shareholder of a subsidiary	-	-	-	-	-	-	-	-	(653)	(653)
As at March 31, 2010 (unaudited)	5,026	368,923	23,425	3,543	645,492	38,794	(1,337,632)	(252,429)	18,596	(233,833)
As at January 1, 2011 (audited)	5,026	368,923	26,501	3,543	645,492	40,790	(1,465,409)	(375,134)	9,853	(365,281)
Recognition of equity-settled share-based payments	-	-	1,751	-	-	-	-	1,751	-	1,751
Issue of ordinary shares upon exercise of share options	4	41	(17)	-	-	-	-	28	-	28
Exchange differences arising on translation of foreign operations	-	-	-	-	-	2,076	-	2,076	-	2,076
Loss for the period	-	-	-	-	-	-	(32,207)	(32,207)	(1,344)	(33,551)
As at March 31, 2011 (unaudited)	5,030	368,964	28,235	3,543	645,492	42,866	(1,497,616)	(403,486)	8,509	(394,977)

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

During the three months ended March 31, 2011, 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 three months ended March 31, 2011, none of the Directors or their respective associates had any interest in any business which competes or may compete with the business of the Group.

AUDIT COMMITTEE

The Company has established the audit committee in accordance with the GEM Listing Rules to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises three independent non-executive Directors of the Company. The audit committee has reviewed the Group's unaudited consolidated results for the three months ended March 31, 2011.

By order of the Board

MelcoLot Limited

Ko Chun Fung, Henry

Executive Director and Chief Executive Officer

Hong Kong, May 6, 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.