
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in MelcoLot Limited (the “**Company**”), you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

CONTINUING CONNECTED TRANSACTIONS, RE-ELECTION OF AN EXECUTIVE DIRECTOR AND NOTICE OF EXTRAORDINARY GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee and
the Independent Shareholders**

Nuada Limited

Corporate Finance Advisory

A letter from the board of directors of the Company is set out on pages 5 to 14 of this circular. A letter of advice from the independent board committee is set out on page 15 of this circular. A letter of advice of Nuada Limited, the independent financial adviser, containing its opinion and advice to the independent board committee and independent shareholders is set out on pages 16 to 23 of this circular.

A notice convening the extraordinary general meeting of the Company (the “**EGM**”) to be held at Units 3101-2A, 31st Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Wednesday, 27 June 2012 at 11:30 a.m. is set out on pages 30 to 32 of this circular. A form of proxy for use at the EGM is also enclosed with this circular.

Whether or not you are able to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the offices of the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

This circular 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.

CHARACTERISTICS OF GEM

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.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Approved LVM”	the lottery vending machines with specification approved and selected by CSLA upon Authentication
“Authentication”	the lottery vending machines approval and selection process conducted by CSLA at the very beginning of the lottery vending machines procurement cycle that the authorized distributor must provide the specifications and models of lottery vending terminals to the CSLA for its evaluation and selection before supplying such particular approved model to CSLA
“Beijing Haiyin”	Beijing Haiyin Huacai Information Technology Limited (北京海榮華彩信息技術有限公司), a company incorporated in the PRC, the holder of 37.5% equity interest in Beijing Telenet, is owned as to 85.0%, 10.0% and 5.0% by Mr. Ding and his spouse, Mr. Li and an independent third party as at the date of this circular, respectively
“Beijing Telenet”	Beijing Telenet Information Technology Limited (北京電信達信息技術有限公司), a company incorporated in the PRC, 52.5% of its entire equity interest is indirectly beneficially owned by the Company as at the date of this circular
“Beijing Telenet Board”	the board of directors of Beijing Telenet
“Board”	the board of Directors
“Company”	MelcoLot Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the GEM
“Commencement Date”	1 July 2012
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Continuing Connected Transactions”	the entering into the Supply Agreement and the transactions contemplated thereunder
“CSLA”	China Sports Lottery Administration Center

DEFINITIONS

“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting to be convened by the Company for the purpose of (i) approving the Supply Agreement and the transactions contemplated thereunder including the Sales Caps; (ii) ratifying the Previous CCT Agreements and the transactions contemplated thereunder; and (iii) re-electing Mr. Chrysafidis as an executive Director
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Global Score”	Global Score Asia Limited, a company incorporated in the British Virgin Islands with limited liability, is an indirect wholly-owned subsidiary of the Company
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising all the independent non-executive Directors, set up to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Supply Agreement, and the transactions contemplated thereunder including the Sales Caps
“Independent Shareholders”	the independent shareholders other than Mr. Ding and his associates who are entitled to vote for and against the Supply Agreement and the transactions contemplated thereunder including the Sales Caps and the Previous CCT Agreements and the transactions contemplated thereunder at the EGM
“Independent Third Party(ies)”	any person or company and its ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Intradak”	Beijing Intradak System Technology Co., Ltd. (北京英特達系統技術有限公司), a company incorporated in the PRC with limited liability
“Latest Practicable Date”	8 June 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

DEFINITIONS

“Mr. Chrysafidis”	Mr. Chrysafidis, Evangelos, an executive Director as at the Latest Practicable Date, who shall retire at the EGM and offer himself for re-election by the Shareholders thereat
“Mr. Ding”	Mr. Ding Jingge, a shareholder of both Beijing Telenet and Intradak, and a director of Beijing Telenet
“Mr. Li”	Mr. Li Xuefeng, a shareholder of both Beijing Telenet and Intradak, and a director of Beijing Telenet
“Nuada”	Nuada Limited, a corporation licensed to carry out business in type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, and the Previous CCT Agreement and the transactions contemplated thereunder
“PRC”	the People’s Republic of China, which, for the purposes of this circular, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Previous CCT Agreements ”	collectively, 15 sale agreements entered into between Beijing Telenet and Intradak during the period from August 2011 to June 2012 in relation to the sale of the lottery vending terminals by Beijing Telenet to Intradak
“Products”	products specified in the Supply Agreement which include but is not limited to Approved LVM and may include other products as agreed between Beijing Telenet and Intradak from time to time
“Sales Caps”	the maximum annual amount to be sold by Beijing Telenet to Intradak for each of the two years ending 31 December 2012 and 31 December 2013 in relation to the sale and deliver of the Products to Intradak by Beijing Telenet
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the issued Share(s)
“Shares”	ordinary shares of HK\$0.01 each in the issued share capital of the Company

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supply Agreement”	the Supply Agreement entered into between Beijing Telenet and Intradak dated 27 March 2012 and amended by the parties thereto on 8 June 2012 in relation to the sale and delivery of the Products to Intradak
“Trade Express”	Trade Express Services Inc., a company incorporated in the British Virgin Islands with limited liability and is an indirect non wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

LETTER FROM THE BOARD



MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

Executive Directors:

Mr. Ko Chun Fung, Henry (*Chief Executive Officer*)

Mr. Chrysafidis, Evangelos

Non-executive Directors:

Mr. Chan Sek Keung, Ringo (*Chairman*)

Mr. Wang, John Peter Ben

Independent Non-executive Directors:

Mr. Tsoi, David

Mr. Pang Hing Chung, Alfred

Mr. So Lie Mo, Raymond

Registered office:

4th Floor, Scotia Centre

P.O. Box 2804

George Town

Grand Cayman

Cayman Islands

*Head office and principal place
of business in Hong Kong:*

Units 3101-2A, 31st Floor

The Centrium

60 Wyndham Street

Central, Hong Kong

11 June 2012

To the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS,
RE-ELECTION OF AN EXECUTIVE DIRECTOR
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

BACKGROUND

References are made to the announcement of the Company dated 27 March 2012 in relation to (i) the Supply Agreement for the sales of the Products by Beijing Telenet to Intradak, for a term of one year commencing from the Commencement Date; and (ii) the Previous CCT Agreements and the transactions contemplated thereunder, as well as the announcement of the Company dated 23 April 2012 in relation to, inter alia, the appointment of Mr. Chrysafidis as an executive Director.

CONTINUING CONNECTED TRANSACTIONS

On 27 March 2012, Beijing Telenet, an indirect non wholly-owned subsidiary of the Company entered into the Supply Agreement with Intradak, one of the seven licensed bidders for the CSLA projects in the PRC, whereby Beijing Telenet will sell and deliver and Intradak will purchase the Products. Salient terms of the Supply Agreement are set out below:

LETTER FROM THE BOARD

The Supply Agreement

Date: 27 March 2012

Parties involved: (1) Beijing Telenet; and
(2) Intradak

Term: one year commencing from the Commencement Date

Sales Caps

Pursuant to the Supply Agreement, Beijing Telenet will sell and deliver and Intradak will purchase the Products. The agreed purchase prices of the Products may be provided in the purchase orders as may from time to time be given by Intradak and accepted by Beijing Telenet. The Sales Caps for each of the two years ending 31 December 2012 and 31 December 2013 will be HK\$200 million and HK\$100 million respectively.

The Sales Caps are determined with reference to the expected demand of the Products by Intradak after taking into account the expected demand in the lottery market in the PRC, with reference to the annual growth rate for the lottery sales in the PRC, which, according to the Ministry of Finance of the PRC, were 25.5% and 33.3% in 2010 and 2011 respectively, together with the expected commencement of a new procurement cycle for the lottery vending terminals this year.

The life cycle of the lottery vending terminals is about 5 years in general. The last procurement cycle began in 2005, and the new procurement cycle was originally expected to commence in 2010 or 2011, but has been delayed as the CSLA has only invited application for Authentication of new terminal models under the new procurement cycle in late 2011. In anticipation that new terminal models will be available in forthcoming years under the new procurement cycle, most of the provincial CSLA authorities had slowed down orders to meet only essential replacement demand in order to be able to obtain the new terminal models when the new procurement cycle commences. As such the demand for the lottery vending terminals was adversely affected in the past few years. The Directors (including the independent non-executive Directors) expect that the new procurement cycle will commence in 2012 and that the pent up demand will result in a significant boost in sales volumes. This increase in demand is anticipated to be further supplemented by the expected ongoing robust organic growth of lottery business.

Accordingly, the Directors (including the independent non-executive Directors) believe that the lottery business in the PRC is in a growing trend and the sales forecast provided by Intradak reflects such growing demand, therefore the Sales Caps which have been adjusted upwards reasonably reflect expected demand from Intradak.

The selling price of the Products will be determined with reference to the historical profit margin of the Products and adjusted by taking into account of (i) Intradak's successful bidding price for the CSLA projects; (ii) the Products costs estimation; and (iii) the selling price of any similar products quoted by Intradak and provide to the Company from independent third party supplier. The selling prices of Beijing Telenet will be no less favourable than that the selling prices of independent third parties to Intradak. The selling price of the Products will be reviewed and agreed between the parties every quarter and will be determined based on normal commercial terms with reference to the aforementioned considerations.

LETTER FROM THE BOARD

In order to ensure the quotation to be obtained from the independent third party supplier of Intradak is reliable and impartial, Intradak and the Company have agreed that the Company will work closely with Intradak during the course of obtaining such quotation. The participation of the Company during quotation includes, among others, the following arrangements (i) Intradak and the Company shall mutually determine from whom the quotation should be obtained; (ii) Intradak and the Company shall mutually pre-determine the specification of the model of the lottery vending machines that quotation is to be obtained for, which must be comparable with the Approved LVM that Beijing Telenet is going to supply to Intradak; (iii) the frequency of obtaining the quotation from independent third party supplier of Intradak shall be not less than once a year; and (iv) the quotation obtained shall be indirectly provided by independent third party supplier to Intradak and the Company simultaneously.

The Board considers that given the unique business model between Intradak and Beijing Telenet, i.e. Intradak is the sole customer of Beijing Telenet and Beijing Telenet is the sole supplier to Intradak. Beijing Telenet is not able to provide quotation to any Independent Third Party for comparison. Therefore, the Directors believe that the abovementioned quotation arrangement for Intradak to obtain quotation from its independent third party supplier with the participation of the Company will provide comparable prices from the Independent Third Parties. Further, the Company will have certain control over the quotation process to ensure the quotation obtained from Intradak's independent third party supplier is reliable and impartial. The Directors take the view that the abovementioned quotation arrangement is fair and reasonable and it is the most appropriate and feasible means to assist the Company in compliance with the GEM Listing Rules governing the Continuing Connected Transactions.

Pricing policy of Beijing Telenet

Beijing Telenet determines the selling prices of the Products with reference to the purchase costs and mark up with certain profit margin. There was a historical margin that has been roughly adhered to, before there was a continuing connected transaction situation. The pricing policy for Beijing Telenet to supply the Approved LVM utilises the historical margin which is adjusted after taking into account (i) the selling prices of the lottery vending terminals with substantially the same specifications from Intradak's independent third party supplier, (ii) Intradak's successful bidding price for the CSLA projects, and (iii) the Approved LVM costs estimation.

For each bidding by Intradak, prices may be subject to some adjustment to be agreed between Beijing Telenet and Intradak upon review of the selling prices by the parties. Besides volume of the order in each bid, change in raw materials costs, transport costs variation, exchange rate fluctuation, market conditions and so forth, factors to be considered during the review include the prevailing costs of the Approved LVM from time to time and the successful bidding prices of prior CSLA projects.

The Directors (including the independent non-executive Directors) consider that the above pricing policy and with certain profit margin is fair and reasonable to Beijing Telenet and is in the interests of the Group and the Shareholders as a whole.

LETTER FROM THE BOARD

Conditions to the Supply Agreement

Pursuant to an amendment to the Supply Agreement agreed between Beijing Telenet and Intradak, the Supply Agreement will become effective on 1 July 2012 upon fulfillment of the following conditions:

- (1) the passing by the Independent Shareholders at the EGM to be convened and held of an ordinary resolution to approve the Supply Agreement and the transactions contemplated thereunder including the Sales Caps;
- (2) all necessary consents, authorizations, licences and approvals required to be obtained on the part of Beijing Telenet in respect of the Supply Agreement having been obtained; and
- (3) all necessary consents, authorizations, licences and approvals required to be obtained on the part of Intradak in respect of the Supply Agreement having been obtained.

Information on the connected persons

As at the date of this circular, Beijing Telenet is owned as to 52.5% by the Company (of which 45% of the equity interest in Beijing Telenet is owned by Global Score and 7.5% of the equity interest in Beijing Telenet is owned by Trade Express), 37.5% by Beijing Haiyin, 5% by Mr. Ding and 5% by Mr. Li. Beijing Haiyin, being a substantial shareholder of Beijing Telenet, is therefore a connected person of the Company as defined in the GEM Listing Rules. Each of Mr. Ding and Mr. Li is a director of Beijing Telenet, and thus each of them is a connected person of the Company as defined in the GEM Listing Rules.

As at the date of this circular, Intradak is owned as to 98% by Beijing Haiyin, 1% by Mr. Ding and 1% by Mr. Li. Beijing Haiyin is a company incorporated in the PRC and is owned as to 85.0% by Mr. Ding and his spouse, as to 10.0% by Mr. Li and as to 5.0% by an independent third party. Intradak, being an associate of Beijing Haiyin, Mr. Ding and Mr. Li, is therefore a connected person of the Company as defined in the GEM Listing Rules.

Reasons for entering into the Supply Agreement

To the best of the information, knowledge and belief of the Directors having made all reasonable enquiries, as at the Latest Practicable Date, there are only 7 authorized distributors in the PRC, and under the existing arrangement of the CSLA, only authorized distributors are permitted to bid for tenders to the CSLA projects. Intradak is one of the 7 authorized distributors in the PRC. Beijing Telenet is a company which sources the Approved LVMs from a manufacturer and supplies the same to Intradak. Accordingly, Beijing Telenet provides procurement services to Intradak in relation to the supply of the Approved LVMs to the CSLA.

Before commencement of each procurement cycle, the authorized distributor must provide the specifications and models of lottery vending terminals to the CSLA for Authentication. For each authorized distributor, only one selected model of lottery vending terminal with particular specifications would be approved and authorized by the CSLA. The authorized distributors, with the Approved LVMs are eligible to bid for tenders throughout the procurement cycle and can only supply their respective Approved LVM after winning the tenders.

LETTER FROM THE BOARD

During the procurement cycle, given that there is a single Approved LVM for each successful tender, there will not be significant change in pricing of the Approved LVM, except certain pricing adjustment arising based on the volume of the order in each bid, as well as change in raw materials costs, transport costs variation, exchange rate fluctuation, market conditions etc. the authorized distributors and suppliers will usually adjust the pricing for each specific bid based on the above factors.

Typically, there is very low incentive for authorized distributors to change suppliers, since each supplier would generally have the back end arrangements in terms of technology and manufacturing set up required for a specific Approved LVM and this would generally enable it to offer the most stable quality with competitive price. This effectively results in long term relationships between suppliers and authorized distributors, and the authorized distributors are not required to continuously seek quotations from various suppliers in the course of business. The abovementioned mode of operation concerning the CSLA projects is also applicable to the business model between Beijing Telenet and Intradak.

To ensure the fairness and reasonableness of the selling prices of the Products, i.e. the Approved LVM, by Beijing Telenet to Intradak, Intradak agrees that it will obtain quotation of lottery vending terminals with substantially the same specification as those supplied by Beijing Telenet from independent third party supplier for comparison, for the purpose of evaluating whether the selling price of the Approved LVM by Beijing Telenet to Intradak will not be less favorable than the selling prices of the independent third party supplier.

Given the relatively close environment of the lottery vending terminals supply industry in the PRC, together with the fact that the life cycle of the lottery vending terminals is 5 years or more in general, there would not be drastic fluctuations in the costs of lottery vending terminals and the bidding prices under normal circumstances. Therefore, repeated and frequent quotations from independent third party suppliers of the same Approved LVM are not necessary.

Nevertheless, as the Supply Agreement constitutes continuing connected transactions under the GEM Listing Rules and in order to ensure the terms of the transactions are fair and reasonable to Beijing Telenet and the Group, although there is no imminent needs to obtain new quotations, such quotation of lottery vending terminals with similar specification as the Approved LVM supplied by Beijing Telenet from independent third party suppliers for comparison and discussion purpose, will be procured upon the Supply Agreement becoming effective.

The Directors consider that the entering into the Supply Agreement is in the usual and ordinary course of business of the Group and the terms of the Supply Agreement is negotiated on an arm's length basis and on normal commercial terms between Beijing Telenet and Intradak.

Since the establishment of Beijing Telenet in 2006, Intradak has been the sole customer of Beijing Telenet and vice versa, Beijing Telenet is the sole supplier to Intradak. Due to the close relationship between Beijing Telenet and Intradak in terms of shareholding, directorship and office location, where Beijing Telenet and Intradak are located at the same office building.

LETTER FROM THE BOARD

Intradak has a strong sales team and deep rooted contacts at various provincial lottery authorities. Beijing Telenet has management expertise, provides Intradak with strategic direction and is a reliable source of quality products for Intradak. Given the relative roles, functions and responsibilities of the parties in the supply chain, the Directors (including the non-executive Directors) consider that the selling prices of the Products, which provides certain percentage of profit margin to Beijing Telenet are indeed fair and reasonable to Beijing Telenet. The Directors further consider that the terms and conditions of the Supply Agreement including the Sales Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The independent non-executive Directors will perform the annual review the Continuing Connected Transactions to confirm that the Continuing Connected Transactions have been entered into on terms no less favourable to the independent third parties. The auditors of the Company will also assess and confirm in the annual report of the Company that the Continuing Connected Transactions are in accordance with the pricing policies adopted by the Company.

IMPLICATIONS OF THE GEM LISTING RULES

By virtue of being an associate of Beijing Haiyin, Mr. Ding and Mr. Li, who are connected persons of the Company as defined under the GEM Listing Rules, Intradak is also a connected person of the Company as defined in the GEM Listing Rules. The transactions contemplated under the Supply Agreement and the Previously CCT Agreements constitute continuing connected transactions on the part of the Company under Chapter 20 of the GEM Listing Rules.

As each of the Sales Caps exceeds HK\$10,000,000 per annum, the entering into of the Supply Agreement will be also subject to the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 20.35 of the GEM Listing Rules. Mr. Ding and his associates who hold in aggregate approximately 4.51% of the entire issued share capital of the Company as at the date of this circular, are required to abstain from voting on the relevant resolution(s) to be proposed at the EGM to (i) approve the Supply Agreement and the transactions contemplated thereunder including the Sales Caps and (ii) ratify the Previous CCT Agreements and the transactions contemplated thereunder.

To the best knowledge, information and belief of the Directors having made the reasonable enquiry, Mr. Li does not hold any Share as at the date of this circular.

Prior Non-Exempt Continuing Connected Transactions

Beijing Telenet is principally engaged in the sale of the lottery vending terminals. The sale of lottery vending terminals by Beijing Telenet to Intradak is on a recurring or ongoing basis. During the period from August 2011 to June 2012, Beijing Telenet had entered into the Previous CCT Agreements involving the sale of lottery vending terminals which exceeded HK\$64 million in aggregate.

Based on the amount of consideration received by the Group arising from and in connection with the Previous CCT Agreements, the entering into of the Previous CCT Agreements were subject to the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 20.35 of the GEM Listing Rules.

LETTER FROM THE BOARD

Set out below is a summary of the principal terms of and the basis for entering into the Previous CCT Agreements:

- (a) a sale of lottery vending terminals by Beijing Telenet to Intradak is conducted under the standard sale agreements and is entered into on the occasion of each separate sale between Beijing Telenet and Intradak;
- (b) each sale agreement between Beijing Telenet and Intradak is on an arm's length basis and on normal commercial terms;
- (c) the price at which lottery vending terminals are sold by Beijing Telenet to Intradak is determined by reference to prevailing market prices; and
- (d) payment due from Intradak in respect of the lottery vending terminals sold by Beijing Telenet are payable by Intradak within 90 days.

During the period from August 2011 to June 2012, Beijing Telenet had entered into the Previous CCT Agreements involving the sales of lottery vending terminals which exceeded HK\$64 million in aggregate and hence is subject to the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 20.35 of the GEM Listing Rules.

Ratification of the Previous CCT Agreements and transactions contemplated thereunder by Independent Shareholders

The Previous CCT Agreements and transactions contemplated thereunder have not previously been reported, announced and approved by Independent Shareholders.

Beijing Telenet has been selling and Intradak has been purchasing the lottery vending terminals since 2006. Prior to 27 July 2011, notwithstanding Beijing Telenet was owned as to 52.5% by the Group, Beijing Telenet was regarded as a jointly controlled entity of the Company pursuant to the relevant Hong Kong accounting standards. Since 27 July 2011, Beijing Telenet has become an indirect non-wholly owned subsidiary of the Company pursuant to the relevant Hong Kong accounting standards upon the amendments to the articles of association of Beijing Telenet which provided certain resolutions of the Beijing Telenet Board could be passed by simple majority vote. Consequently, all the sale of lottery vending terminals by Beijing Telenet to Intradak as contemplated under the Previous CCT Agreements commencing August 2011 constituted continuing connected transactions on the part of the Company.

Due to the change of Beijing Telenet from a jointly controlled entity to a non-wholly owned subsidiary of the Company as a result of the accounting treatment, the staff members of the Company inadvertently omit to spot the sale of lottery vending terminals by Beijing Telenet to Intradak constituted continuing connected transactions on the part of the Company. The inadvertent omission by the Company to report and announce and obtain approval of the Independent Shareholders to the Previous CCT Agreements was identified during the Group's 2011 audit.

LETTER FROM THE BOARD

The omission by the Company to comply with the requirement of the GEM Listing Rules in respect of the Previous CCT Agreements was wholly unintentional. Once the existence of the Previous CCT Agreements was identified, the Company has taken immediate remedial action by reporting and announcing the Previous CCT Agreements, and an independent shareholders' approval to ratify the Previous CCT Agreements and the transactions contemplated thereunder will be sought at the EGM.

REQUIREMENTS OF THE GEM LISTING RULES

Pursuant to the GEM Listing Rules, the Independent Board Committee comprising all independent non-executive Directors, namely, Mr. Tsoi, David, Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond, has been established to advise the Independent Shareholders on whether (i) the terms of the Supply Agreement and the transaction contemplated thereunder including the Sales Caps; and (ii) the terms of the Previous CCT Agreements and the transactions contemplated thereunder, are fair and reasonable and in the interest of the Company and the Shareholders as a whole. The Company will also appoint the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders regarding (i) the Supply Agreement including the Sales Caps and (ii) the terms of the Previous CCT Agreements and the transactions contemplated thereunder.

INFORMATION ON THE GROUP

The Group is principally engaged in the lottery business. The subsidiaries of the Company are engaged in various lottery related businesses and ventures in the PRC and other Asian countries, as well as in the manufacturing of lottery vending terminals for the sports and welfare lottery businesses in the PRC.

RE-ELECTION OF AN EXECUTIVE DIRECTOR

On 23 April 2012, a resolution has been passed to appoint Mr. Chrysafidis as an executive Director with immediate effect.

According to Article 86(3) of the article of association of the Company, any Director appointed to fill a causal vacancy on the Board shall hold office only until the next following general meeting of the Company, and shall then be eligible for re-election at that meeting. Accordingly, Mr. Chrysafidis, who is appointed to fill the vacancy upon the resignation of Mr. Moumouris, Christos, a former executive Director, shall hold office until the EGM. The Board shall propose a resolution on the EGM whereby the Shareholders will consider and re-elect Mr. Chrysafidis by way of an ordinary resolution.

Mr. Chrysafidis, aged 39, holds an MSc in finance from the University of Lancaster in the United Kingdom and a business administration and finance degree from the Athens University of Economics and Finance. He is also a graduate of the financial management program of General Electric Company. He held a series of senior positions in the software, semiconductor and medical systems industries, having worked with Microsoft Corporation, Intel Corporation and General Electric Company in the finance discipline, as well as in business development and marketing areas.

Mr. Chrysafidis is currently a managing director of Intralot Asia Pacific Limited, a subsidiary of Intralot S.A. Integrated Lottery Systems and Services, a substantial shareholder of the Company, and is engaged in operation in lottery business in China, Taiwan, Korea, Philippines, Malaysia, Australia and New Zealand.

LETTER FROM THE BOARD

Save as disclosed, Mr. Chrysafidis does not have any relationships with any Directors, senior management, management shareholders, substantial or controlling shareholders of the Company. For the past three years, Mr. Chrysafidis did not hold any directorship in other public listed company or any other position with the Company or any of its associated corporations. As at the Latest Practicable Date, save for the share options granted by the Board to Mr. Chrysafidis on 18 November 2010 which when exercised entitling Mr. Chrysafidis to subscribe for 1,000,000 shares at the exercise price of HK\$0.152 per share, Mr. Chrysafidis has no other interest in the securities of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

The Company has signed a letter of appointment with Mr. Chrysafidis. Both the Company and Mr. Chrysafidis are entitled to terminate this appointment at any time by giving one month notice to the other party in writing. Mr. Chrysafidis will receive no emolument in connection with his position as an executive Director. Any future remuneration to Mr. Chrysafidis will be determined by the remuneration committee of the Company with reference to his duties and level of responsibilities, the remuneration policy of the Company and the prevailing market conditions. Mr. Chrysafidis has a fixed term of service of 2 years with the Company but he is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles.

Save as disclosed above, Mr. Chrysafidis does not have any information that needs to be disclosed and brought to the attention of the Shareholders pursuant to Rule 17.50(2) (h) to Rule 17.50(2)(w) of the GEM Listing Rules.

EGM

The notice convening the EGM is set out on pages 30 to 32 of this circular. At the EGM, ordinary resolutions will be proposed to (i) approve the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, (ii) ratify the Previous CCT Agreements and the transactions contemplated thereunder, and (iii) to consider and re-elect Mr. Chrysafidis as an executive Director. A form of proxy for use at the EGM is also enclosed with this circular. To be valid, the enclosed form of proxy, together with any power of attorney or other authority under which it is signed must be completed in accordance with the instructions printed thereon and delivered to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. The completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjourned meeting in person if you so wish.

Mr. Ding and his associates who hold in aggregate approximately 4.51% of the entire issued share capital of the Company as at the date of this circular, are required to abstain from voting on the relevant resolution(s) to be proposed at the EGM to (i) approve the Supply Agreement and the transactions contemplated thereunder including the Sales Caps and (ii) ratify the Previous CCT Agreements and the transactions contemplated thereunder.

LETTER FROM THE BOARD

RECOMMENDATIONS

The Directors (including the independent non-executive Directors) consider that the terms of the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, as well as the terms of the Previous CCT Agreements and the transactions contemplated thereunder, are fair and reasonable and the entering into of the Supply Agreement and the entered into of the Previous CCT Agreements are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the EGM to (i) approve the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, and (ii) ratify the Previous CCT Agreements and the transactions contemplated thereunder.

Your attention is drawn to the letter from the Independent Board Committee as set out on page 15 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding (i) the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, and (ii) the Previous CCT Agreements and the transactions contemplated thereunder; and the letter from Nuada to the Independent Board Committee and the Independent Shareholders as set out on pages 16 to 23 of this circular containing its advice to the Independent Board Committee and the Independent Shareholders in this regard.

The Independent Board Committee, having taking into account the advice from Nuada, considers that the terms of the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, as well as the terms of the Previous CCT Agreements and the transactions contemplated thereunder, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to (i) approve the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, and (ii) ratify the Previous CCT Agreements and the transactions contemplated thereunder.

Further, based on the information disclosed herein, the Directors believe that the re-election of Mr. Chrysafidis is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all Shareholders vote in favour of the ordinary resolution to re-elect Mr. Chrysafidis as an executive Director as set out in the notice of the EGM.

ADDITIONAL INFORMATION

Please refer to the appendix to this circular for additional information.

Yours faithfully,
For and on behalf of the Board
MelcoLot Limited
Ko Chun Fung, Henry
Executive Director and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

Units 3101-2A, 31st Floor
The Centrium
60 Wyndham Street
Central, Hong Kong

11 June 2012

To the Independent Shareholders

Dear Sir and Madam,

CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise you in respect of the terms of the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, as well as the terms of the Previous CCT Agreements and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” in the circular dated 11 June 2012, of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the said circular unless the context otherwise requires.

We wish to draw your attention to the letter of advice from Nuada as set out on pages 16 to 23 of this circular, which contains its advice and recommendation to us as to whether or not the terms of the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, as well as the terms of the Previous CCT Agreements and the transactions contemplated thereunder, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, as well as the principal factors and reasons for its advice and recommendation.

Having considered, amongst other matters, the factors and reasons considered by, and the opinion of, Nuada as stated in its aforementioned letter of advice, we are of the opinion that the terms of the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, as well as the terms of the Previous CCT Agreements and the transactions contemplated thereunder, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM to, inter alia, (i) approve the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, and (ii) ratify the Previous CCT Agreements and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the Independent Board Committee

Mr. Tsoi, David Mr. Pang Hing Chung, Alfred Mr. So Lie Mo, Raymond
Independent non-executive Director

LETTER FROM NUADA

The following is the text of a letter of advice from Nuada in connection with the Supply Agreement (including the relevant Sales Caps) which has been prepared for inclusion in this circular.

Nuada Limited

Corporate Finance Advisory

19th Floor, BLINK, 111 Bonham Strand
Sheung Wan, Hong Kong
香港上環文咸東街111號BLINK 19字樓

11 June 2012

To the Independent Board Committee and the Independent Shareholders of
MelcoLot Limited

Dear Sirs and Madams,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our engagement as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Supply Agreement and the Previous CCT Agreements, particulars of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the Company’s circular dated 11 June 2012 (the “**Circular**”), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 27 March 2012, Beijing Telenet, an indirect non wholly-owned subsidiary of the Company entered into the Supply Agreement with Intradak, whereby Beijing Telenet will sell and deliver and Intradak will purchase the Products. As at the date of the Circular, Beijing Telenet is owned as to 52.5% by the Company (of which 45% of the equity interest in Beijing Telenet is owned by Global Score and 7.5% of the equity interest in Beijing Telenet is owned by Trade Express), 37.5% by Beijing Haiyin, 5% by Mr. Ding and 5% by Mr. Li. Beijing Haiyin, being a substantial shareholder of Beijing Telenet, is therefore a connected person of the Company as defined in the GEM Listing Rules. Each of Mr. Ding and Mr. Li is a director of Beijing Telenet, and thus each of them is a connected person of the Company as defined in the GEM Listing Rules. As at the date of the Circular, Intradak is owned as to 98% by Beijing Haiyin, 1% by Mr. Ding and 1% by Mr. Li. Beijing Haiyin is a company incorporated in the PRC and is owned as to 85.0% by Mr. Ding and his spouse, as to 10.0% by Mr. Li and as to 5.0% by an independent third party. Intradak, being an associate of Beijing Haiyin, Mr. Ding and Mr. Li, is therefore a connected person of the Company as defined in the GEM Listing Rules.

As each of the Sales Caps exceeds HK\$10,000,000 per annum, the entering into of the Supply Agreement will be also subject to the reporting, annual review, announcement and independent shareholders’ approval requirements pursuant to Rule 20.35 of the GEM Listing Rules. Mr. Ding and his associates who hold in aggregate approximately 4.51% of the entire issued share capital of the Company as at the date of this Circular, are required to abstain from voting on the relevant resolution(s) to be proposed at the EGM to (i) approve the Supply Agreement and the transactions contemplated thereunder including the Sales Caps and (ii) ratify the Previous CCT Agreements and the transactions contemplated thereunder.

LETTER FROM NUADA

The Independent Board Committee, comprising Mr. Tsoi, David, Mr. Pang Hing Chung, Alfred and Mr. So Lie Mo, Raymond, all being independent non-executive Directors, has been established to advise the Independent Shareholders on whether (i) the terms of the Supply Agreement and the transaction contemplated thereunder including the Sales Caps; and (ii) the terms of the Previous CCT Agreements and the transactions contemplated thereunder, are fair and reasonable and in the interest of the Company and the Shareholders as a whole. We, Nuada Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible for, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular and provided to us by the management of the Company and the Directors, or the reasonableness of the opinions expressed by the management of the Company and the Directors. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us sufficient information to reach an informed view and to provide a reasonable basis for our opinion and we have relied on such information and opinions. We consider that we have performed all reasonable steps as required under Rule 17.92 of the GEM Listing Rules (including the notes thereto) to formulate our opinion and recommendation. We have not, however, conducted any independent in-depth investigation into the business and affairs, financial conditions or the future prospects of the Group, Beijing Telenet and or their respective subsidiaries or associates.

PRINCIPAL FACTORS CONSIDERED

In assessing (i) the terms of the Supply Agreement and the transaction contemplated thereunder including the Sales Caps; and (ii) the terms of the Previous CCT Agreements and the transactions contemplated thereunder, and in giving our recommendation to the Independent Board Committee and the Independent Shareholders, we have taken into account the following principal factors and reasons:

1. Reasons for the Continuing Connected Transactions

The Group is principally engaged in the lottery business. The subsidiaries of the Company are engaged in various lottery related businesses and ventures in the PRC and other Asian countries, as well as in the manufacturing of lottery vending terminals for the sports and welfare lottery businesses in the PRC. Beijing Telenet is owned as to 52.5% by the Company (of which 45% of the equity interest in Beijing Telenet is owned by Global Score and 7.5% of the equity interest in Beijing Telenet is owned by Trade Express) as at the Latest Practicable Date and is engaged in the sale of lottery vending terminals.

LETTER FROM NUADA

As advised by the Directors, Beijing Telenet and Intradak are two of the 7 licensed manufacturers and distributors of high quality, versatile lottery vending terminals for the lottery authorities in the PRC as stated in the document numbered 575 issued by CSLA dated 26 December 2005 and Intradak has an experienced sales team for making bids for the provision of lottery vending terminals to CSLA and deep rooted contacts at various provincial lottery authorities. Therefore, Intradak is well-experienced in making bids and has been maintaining a good relationship with the lottery authorities. Beijing Telenet has been supplying the Products to Intradak since 2006 and such sales have been providing stable and reliable revenue to Beijing Telenet. For the year ended 31 December 2011, the Group generated income from the manufacturing and sales of lottery vending terminals amounting to HK\$83.4 million, representing approximately 86.3% of the total revenue of the Group. Also, the other bidders have their own suppliers and it is difficult to make sales to them. Therefore, the cooperation between Beijing Telenet and Intradak is beneficial to both companies.

The Directors consider that the entering into the Supply Agreement is in the usual and ordinary course of business of the Group and the terms of the Supply Agreement is negotiated on an arm's length basis and on normal commercial terms between Beijing Telenet and Intradak. The Directors (including the non-executive Directors) are of view that the terms and conditions of the Supply Agreement including the Sales Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Also as stated above, Beijing Telenet has been carrying out transactions with Intradak since 2006. In light of the long-established and close working relationship between Beijing Telenet and Intradak, and the understanding of each other's operations and practices, it facilitates the operation efficiency of Beijing Telenet and minimises the potential counter party risks of Beijing Telenet in cooperating with unfamiliar third party customers.

We concur with the Directors that (i) the sale of the Products to Intradak, amounted to approximately 86.3% of the total revenue of the Group in the year ended 31 December 2011, is crucial to the Group; and (ii) the sale of Products to Intradak will secure a stable and reliable revenue stream to the Group, therefore, we consider the entering into the Supply Agreement is in the interest of and beneficial to the Company and its Shareholders as a whole.

2. Major terms of the Supply Agreement

As stated in the Letter from the Board, pursuant to the Supply Agreement, Beijing Telenet will sell and deliver and Intradak will purchase the Products. The agreed purchase prices of the Products may be provided in the purchase orders as may from time to time be given by Intradak and accepted by Beijing Telenet. We have reviewed the terms of the Supply Agreement.

Selling price of the Products

The selling price of the Products will be determined with reference to the historical profit margin of the Products and adjusted by taking into account of (i) Intradak's successful bidding price for the CSLA projects; (ii) the Products costs estimation; and (iii) the selling price of any similar products quoted by Intradak from independent third party supplier. The selling price of the Products will be reviewed and agreed between the parties every quarter and will be determined based on normal commercial terms with reference to the aforementioned considerations.

LETTER FROM NUADA

As stated in the Letter from the Board, to ensure the fairness and reasonableness of the selling price of the Products, i.e. the Approved LVM, by Beijing Telenet to Intradak, Intradak agrees that it will assist the Company to obtain quotation of lottery vending terminals with substantially the same specification as those supplied by Beijing Telenet from independent third party supplier for comparison upon the Supply Agreement becoming effective, for the purpose of evaluating whether the selling price of the Approved LVM by Beijing Telenet to Intradak will not be less favorable than the selling price of the independent third party supplier. We consider that it is reasonable for Intradak to obtain the quotations since Intradak is the purchaser and bidder. Nevertheless, to ensure the quotation to be obtained is reliable and impartial, Intradak and the Company have agreed to work closely during the course of obtaining such quotation. Please refer to the details of the arrangement in the Letter from the Board. We are of the view that, under such arrangement, the obtaining of the quotation by Intradak is, in essence, the same as the quotation being obtained by the Company due to the reasons that 1) the Company will also determine from which supplier the quotation is to be obtained; 2) the quotation will have specification of the model comparable with the Approved LVM that Beijing Telenet is going to supply to Intradak; and 3) the quotation will also be received by the Company from the independent third party supplier, instead from Intradak. We consider that under the arrangement, the quotation obtained will be reliable and impartial.

Pricing Policy of Beijing Telenet

Beijing Telenet determines the selling prices of the Approved LVM with reference to the purchase costs and mark up with certain profit margin. As stated above, the pricing policy for Beijing Telenet to supply the Approved LVM will be based on the historical margin which will be adjusted after taking into account (i) the selling prices of the lottery vending terminals with substantially the same specifications from independent third party supplier; (ii) the successful bidding price; and (iii) the Approved LVM costs estimation.

Given that (i) Intradak is the sole customer of Beijing Telenet and Beijing Telenet is the sole supplier to Intradak; and (ii) the limited number of authorized distributors approved by CSLA which are also competitors to Beijing Telenet, it would be difficult for Beijing Telenet and Intradak to obtain quotations of lottery vending terminals directly. We concur with the Board that the Group is in a difficulty to obtain direct reference from other vending lottery terminal manufacturers. Nevertheless, given that the components of a lottery vending machine mainly comprise computer related products such as central processing unit, monitor, input device, card reader and ticket printer, the Directors are of the view that the operations of Beijing Telenet are similar in nature to those of the distributors of computer related electronic products. A lottery vending terminal supplied by Beijing Telenet is an electronic machine similar to a desktop computer as it comprises most computer components such as central processing unit, monitor, input device, memory card and is customised to lottery industry functions with specialized software and with features such as scanner, card reader, ticket printer. We also take the view that the distribution of computer related electronic products would be reasonable product category for comparison gross profit margin. We further consider that Beijing Telenet is merely a trading company which sources Approved LVMs from a manufacturer and supplies the same to Intradak with very limited added-value service provided. As such, the comparison of gross profit margin with computer related distributor is appropriate. The Company will monitor the gross profit margin of the Group by comparing with the gross profit margin of those distributors. We consider that the comparison with other similar companies will assist the Company in monitoring its gross profit margin.

LETTER FROM NUADA

Annual review

Besides, the independent non-executive Directors will perform the annual review on the Continuing Connected Transactions to confirm that the Continuing Connected Transactions have been entered into on terms no less favourable to the independent third parties. We consider that under the arrangement with Intradak since Beijing Telenet does not have third party sales owing to the unique nature of industry, to obtain the quotation from independent third party supplier is the best available alternative to getting independent third party prices. In addition, the publicly available gross profit margins of distributors of computer related electronic products would provide an additional reference regarding the reasonableness of the price. Based on the abovementioned, the independent non-executive Directors should be able to perform the annual review and make the confirmation. The auditors of the Company will also assess and confirm in the annual report of the Company that the Continuing Connected Transactions are in accordance with the pricing policies adopted by the Company. Due to the reason that the information of the pricing policy to be obtained by the auditors of the Company should be available, we consider that the auditors of the Company will be able to determine whether or not the Continuing Connected Transactions are in accordance with the pricing policy of the Company.

Having considered 1) comparison will be made with the quotation to be obtained from independent third party supplier; and 2) the gross profit margin of Beijing Telenet is being monitored, we are of the view that the terms of the Supply Agreement, including the selling price of the Products and the pricing policy of the Company, are fair and reasonable so far as the Independent Shareholders are concerned.

3. Sales Caps

According to the Supply Agreement, the Sales Caps will not exceed the following:

	Year ending 31 December 2012 <i>HK\$ million</i>	Year ending 31 December 2013 <i>HK\$ million</i>
Sales Amount	200	100

As stated in the Letter from the Board, the Sales Caps are determined with reference to the expected demand of the Products by Intradak after taking into account the expected demand in the lottery market in the PRC, with reference to the annual growth rate for the lottery sales in the PRC, together with the expected commencement of a new procurement cycle for the lottery vending terminals this year. The life cycle of the lottery vending terminals is about 5 years in general. The last procurement cycle began in 2005, and the new procurement cycle was originally expected to commence in 2010 or 2011, but has been delayed as the CLSA has only invited application for authorization of new terminal models under the new procurement cycle in late 2011. In anticipation that new terminal models will be available in forthcoming years under the new procurement cycle, most of the provincial CSLA authorities had slowed down orders to meet only essential replacement demand in order to be able to obtain the new terminal models when the new procurement cycle commences. As such, the demand for the lottery vending terminals was adversely affected in the past few years. The Directors (including the independent non-executive Directors) expect that the new procurement cycle will commence in 2012 and that the pent up demand will result in a

LETTER FROM NUADA

significant boost in sales volumes. This increase in demand is anticipated to be further supplemented by the expected ongoing robust organic growth of lottery business. Hence, the sales of the lottery vending terminal will increase significantly in the next few years. The Directors (including the independent non-executive Directors) believe that the lottery business in the PRC is in a growing trend and the sale forecast provided by Intradak reflects such growing demand, therefore the Sale Caps reasonably reflect such demand by Intradak.

According to the Ministry of Finance of the PRC, the total sale of lottery tickets in the PRC for the year 2011 were RMB221.6 billion, an increase of 33.3% year-on-year, which was comprised of 32% and 35% growth for Welfare Lottery and Sports Lottery respectively. Despite the fact that the PRC lottery industry continues to show strong year-on-year growth as a whole, sales remain low compared to other more developed nations in per capita terms. As the overall economy continues to register robust growth in the PRC, remarkable lottery industry growth is expected to continue in the mid-term. In view of the above, we believe that the lottery market in the PRC has high growth potential.

To assess the fairness and reasonableness of the Sales Caps, we have discussed with the Company regarding the basis. In this regard, we understand that the Group's plan to sell the Products to Intradak were under negotiation between the Group and Intradak. The Sales Caps are estimated based on the following factors: 1) the expected selling price; 2) the targeted number of sale of the Products (with reference to the sale record in 2005); and 3) the organic growth of the lottery business in the PRC. On the above basis, we consider the Sales Caps under the Supply Agreement are fair and reasonable.

4. Prior Non-Exempt Continuing Connected Transactions

Set out below is a summary of the principal terms of and the basis for entering into the Previous CCT Agreements:

- (a) a sale of lottery vending terminals by Beijing Telenet to Intradak is conducted under the standard sale agreements and is entered into on the occasion of each separate sale between Beijing Telenet and Intradak;
- (b) each sale agreement between Beijing Telenet and Intradak is on an arm's length basis and on normal commercial terms;
- (c) the price at which lottery vending terminals are sold by Beijing Telenet to Intradak is determined by reference to prevailing market prices; and
- (d) payment due from Intradak in respect of the lottery vending terminals sold by Beijing Telenet are payable by Intradak within 90 days.

We have reviewed the sales contracts entered into between Beijing Telenet and Intradak and the sales invoices issued by Beijing Telenet to Intradak. We understand that the terms are similar to those entered into before there was a continuing connected transaction situation and the Company has confirmed to us that the terms of the future contracts will be similar. As such, the terms for selling the Products to Intradak will remain almost the same. Also, we have reviewed the gross profit margin of those contracts and are of the view that the terms, on average, are in accordance to the pricing policy. As no independent

LETTER FROM NUADA

third party contracts can be compared with, we could not provide any opinion. However, as stated above, quotation of any similar products will be obtained from independent third party supplier and, therefore, the terms of the future contracts could be reviewed by the independent non-executive Directors. As stated in the above, given that (i) Intradak is the sole customer of Beijing Telenet and Beijing Telenet is the sole supplier to Intradak; and (ii) the limited number of authorized distributors approved by CSLA which are also competitors to Beijing Telenet, it would be difficult for Beijing Telenet and Intradak to obtain quotations of lottery vending terminals directly. We concur with the Directors that the Group is in a difficulty to obtain direct reference from other lottery terminal manufacturers. As mentioned above, the Directors are of the view that the operations of Beijing Telenet are similar in nature to those of distributors of computer related electronic products. Based on the publicly available information of 6 listed companies in Hong Kong which are involved in the trading and distribution of computer related electronic products, we note that the gross profit margins of those distributors ranging from about 5% to 11%. After comparing the average gross profit margin of Beijing Telenet with those of the distributors, we consider the average gross profit margin of Beijing Telenet is comparable to those distributors. We, therefore, considered that the terms of the Previous CCT Agreements were fair and reasonable.

The sale of lottery vending terminals by Beijing Telenet to Intradak is on a recurring or ongoing basis since 2006. During the period from August 2011 to June 2012, Beijing Telenet had entered into the Previous CCT Agreements involving the sale of lottery vending terminals which exceeded HK\$64 million in aggregate.

Based on the amount of consideration received by the Group arising from and in connection with the Previous CCT Agreements, the entering into of the Previous CCT Agreements were subject to the reporting, annual review, announcement and independent shareholders' approval requirements pursuant to Rule 20.35 of the GEM Listing Rules. However, the Previous CCT Agreements and transactions contemplated thereunder have not previously been reported, announced and approved by Independent Shareholders. As advised by the Company, the omission by the Company to comply with the requirement of the GEM Listing Rules in respect of the Previous CCT Agreements was wholly unintentional. Once the existence of the Previous CCT Agreements was identified, the Company has taken immediate remedial action by reporting and announcing the Previous CCT Agreements, and an independent shareholders' approval to ratify the Previous CCT Agreements and the transactions contemplated thereunder will be sought at the EGM.

Having considered that 1) the sale of Products have been commenced since 2006; 2) the sale of Products were crucial to the Company and have been procuring a stable and steady revenue; 3) the omission was wholly unintentional; and 4) the terms of the Previous CCT Agreements were fair and reasonable, although the GEM Listing Rules have not been complied, we are of the view that it is fair and reasonable to ratify the Previous CCT Agreements and the transactions contemplated thereunder.

RECOMMENDATIONS

Having considered the above principal factors, in particular that the Group can secure stable and reliable revenue by the Continuing Connected Transactions, we are of the opinion that the Continuing Connected Transactions are in the ordinary and usual course of business, the terms of the Supply Agreement are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Supply Agreement is in the interests of the

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Company and the Shareholders as a whole. Also, the Previous CCT Agreements and the transactions contemplated thereunder are in the ordinary and usual course of business, the terms of the Previous CCT Agreements are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Previous CCT Agreements are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders, and also recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the EGM to (i) approve the Supply Agreement and the transactions contemplated thereunder including the Sales Caps, and (ii) ratify the Previous CCT Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Nuada Limited
Kevin Chan
Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular 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 circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors' Interests

As at the Latest Practicable Date, the interests or short positions of each Director and chief executive of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

(a) Long positions in ordinary Shares

Name of Director	Number of Shares			Approximate percentage of the issued share capital of the Company (Note 1)
	Beneficial owner	Held by controlled corporation(s)	Total number of Shares	
Mr. Chan Sek Keung, Ringo	18,876,000	34,400,000 (Note 2)	53,276,000	10.59%
Mr. Tsoi, David	976,000	–	976,000	0.19%
Mr. Pang Hing Chung, Alfred	1,500,000	–	1,500,000	0.30%

Notes:

- (1) As at the Latest Practicable Date, the total number of the issued Shares was 502,966,933.
- (2) Mr. Chan Sek Keung, Ringo is deemed to be interested in 34,400,000 ordinary Shares beneficially held by Woodstock Management Limited, a company wholly owned by him.

(b) Long positions in share options of the Company

<u>Name of Director</u> (Note 2)	<u>Number of share options held</u>	<u>Number of underlying shares</u>	<u>Approximate percentage of shareholding</u> (Note 1)
Mr. Ko Chun Fung, Henry	13,354,000	13,354,000	2.66%
Mr. Chrysafidis, Evangelos	1,000,000	1,000,000	0.20%
Mr. Chan Sek Keung, Ringo	6,200,000	6,200,000	1.23%
Mr. Wang, John Peter Ben	11,846,000	11,846,000	2.36%
Mr. Tsoi, David	400,000	400,000	0.08%
Mr. Pang Hing Chung, Alfred	400,000	400,000	0.08%
Mr. So Lie Mo, Raymond	400,000	400,000	0.08%

Notes:

- (1) As at the Latest Practicable Date, the total number of the issued Shares was 502,966,933.
- (2) Each of the above Directors is the personal beneficial owner of the share options granted to him.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company or their respective associates (within the meaning of the GEM Listing Rules) had any interests and short positions in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

(ii) Substantial Shareholders' Interests

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company were as follows:

(a) Long positions in ordinary Shares

Name of Shareholder	Number of Shares			Approximate percentage of the issued share capital of the Company (Note 1)
	Beneficial owner	Held by controlled corporation(s)	Total number of Shares	
Melco International Development Limited (“ Melco ”)	–	58,674,619 (Note 2)	58,674,619	11.67%
Mr. Ho, Lawrence Yau Lung (“ Mr. Ho ”)	–	58,674,619 (Note 3)	58,674,619	11.67%
Intralot S.A. Integrated Lottery Systems and Services (“ Intralot S.A. ”)	–	52,973,779 (Note 4)	52,973,779	10.53%
Mr. Chang Tung-Bing (“ Mr. Chang ”)	–	20,787,042 (Note 5)	20,787,042	4.13%
Firich Enterprises Co., Ltd. (“ Firich ”)	2,097,498	10,880,000 (Note 6)	12,977,498	2.58%

(b) Long positions in the underlying shares of the Company

Name of Shareholder	Number of underlying shares			Approximate percentage of the issued share capital of the Company (Note 1)
	Beneficial owner	Held by controlled corporation(s)	Total number of underlying shares	
Melco	–	470,006,743 (Note 2)	470,006,743	93.45%
Mr. Ho	13,354,000 (Note 7)	470,006,743 (Note 3)	483,360,743	96.10%
Intralot S.A.	–	366,376,270 (Note 4)	366,376,270	72.84%
Mr. Chang	–	206,104,195 (Note 5)	206,104,195	40.98%
Firich	20,796,766	–	20,796,766	4.13%

Notes:

- (1) As at the Latest Practicable Date, the total number of the issued Shares was 502,966,933.
- (2) Melco is deemed by the SFO to be interested in 58,674,619 Shares and 470,006,743 underlying shares from convertible bonds in the Company as described in (8) below by virtue of its indirect holding of its wholly owned subsidiaries, Melco Leisure and Entertainment Group Limited and Melco LottVentures Holdings Limited.
- (3) Mr. Ho is deemed by the SFO to be interested in 58,674,619 Shares and 470,006,743 underlying shares from convertible bonds in the Company as described in (8) below by virtue of his controlling interests in Melco, which is held by his controlled corporations, and his indirect holding of Melco Leisure and Entertainment Group Limited and Melco LottVentures Holdings Limited.
- (4) Intralot S.A. is deemed by the SFO to be interested in 52,973,779 Shares and 366,376,270 underlying shares from convertible bonds in the Company as described in (8) and (9) below by virtue of its indirect holding of its wholly owned subsidiaries, Intralot Holdings International Limited and Intralot International Limited.
- (5) Mr. Chang is deemed by the SFO to be interested in 20,787,042 Shares and 206,104,195 underlying shares from convertible bonds in the Company as described in (8) below by virtue of his direct holding in the entire share capital of Universal Rich Holdings Limited and its wholly owned subsidiary, Global Crossing Holdings Ltd. Pursuant to a sale and purchase agreement dated 15 December 2011, Universal Rich Holdings Limited acquired the entire share capital of Global Crossing Holdings Ltd. from Firich.
- (6) Firich is deemed by the SFO to be interested in 10,880,000 Shares by virtue of its direct holding of its wholly owned subsidiary, Toprich Company Limited.
- (7) Mr. Ho renders consultancy services in respect of the business development of the Group without receiving any compensation. The Company granted share options to him for recognizing his services similar to those rendered by other employees.
- (8) On 13 December 2007, the Company issued convertible bonds (the “**Convertible Bonds I**”) with principal amount of HK\$606,800,000 to Power Way Group Limited as part of the consideration for the acquisition of subsidiaries, which entitle the holder to convert them into 713,882,352 ordinary shares of the Company within 5 years from the date of issue at a conversion price of HK\$0.85 per share subject to anti-dilutive adjustments. If the Convertible Bonds I have not been converted, they will be redeemed on maturity date of 13 December 2012. Power Way Group Limited had subsequently distributed all Convertible Bonds I to its shareholders, and as to principal amount of HK\$399,505,732 by Melco LottVentures Holdings Limited, HK\$175,188,566 by Global Crossing Holdings Ltd., HK\$17,677,251 by Firich and the balance of HK\$14,428,451 by Intralot International Limited, after several transfers, as at the Latest Practicable Date.
- (9) Pursuant to an agreement dated 7 September 2008 (as amended by a supplemental agreement dated 26 September 2008) entered into between the Company and Intralot International Limited, the Company issued convertible bonds (the “**Convertible Bonds II**”) with principal amount of HK\$277,175,310 to Intralot International Limited, as part of the consideration for the acquisition of intangible assets on 9 December 2008, which entitle the holder to convert them into 279,692,542 ordinary shares of the Company within 5 years from the date of issue at a conversion price of HK\$0.991 per share subject to anti-dilutive adjustments. If the Convertible Bonds II have not been converted, they will be redeemed on maturity date of 9 December 2013. In addition, upon obtaining two agreements in connection with the recognized projects in China, the Company shall pay the success payment, satisfied by convertible bonds, to Intralot International Limited, which are convertible into 69,709,080 ordinary shares of the Company at a conversion price of HK\$1.0759 per share.

Save as disclosed above, as at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Company or had any options in respect of such shares.

3. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing service contract or proposed service contract with the Company or any of its subsidiaries or associated companies in force, which was entered into or amended within 6 months prior to the Latest Practicable Date, or is continuous with a notice period of 12 months or more, or which is a fixed term contract with more than 12 months to run irrespective of the notice period (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation).

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any circumstances or events that may give rise to a material adverse change in the financial or trading position of the Group since 31 December 2011, being the date of which the latest audited financial statements of the Group were made up.

5. EXPERT'S QUALIFICATION AND CONSENT

The qualifications of the experts who have given opinions and/or whose names are included in this circular are as follows:

Name of expert	Qualification
Nuada	a licensed corporation to carry out type 6 regulated activity under the SFO

Nuada has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Nuada was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

6. DIRECTORS' INTERESTS IN ASSETS/CONTRACTS AND OTHER INTERESTS

- (a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 31 December 2011, the date to which the latest published audited financial statements of the Group were made up.
- (b) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

7. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business which competes with or may compete with the business of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the Supply Agreement and the Previous CCT Agreements will be available for inspection during normal business hours (Saturdays and public holidays excepted) from 10:00 a.m. to 1:00 p.m. and from 2:00 p.m. to 5:00 p.m. at the principal office of the Company in Hong Kong from the date of this circular up to and including the date of the EGM.

NOTICE OF EGM



MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of MelcoLot Limited (the “**Company**” together with its subsidiaries (the “**Group**”)) will be held at Units 3101-2A, 31st Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong on Wednesday, 27 June 2012 at 11:30 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the supply agreement (the “**Supply Agreement**”) dated 27 March 2012 and entered into between Beijing Telenet Information Technology Limited (“**Beijing Telenet**”) and Beijing Intradak System Technology Co., Ltd. (“**Intradak**”) for the sales and delivery of products (the “**Products**”) including but is not limited to lottery vending terminals and other products as may agree between Beijing Telenet and Intradak from time to time by Beijing Telenet to Intradak for a term of one year commencing from 1 July 2012, a copy of which has been produced to the EGM marked “A” and signed by the chairman of the EGM for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the maximum annual amount to be sold by Beijing Telenet to Intradak in relation to the sales and delivery of the Products for the two years ending 31 December 2012 and 31 December 2013 of HK\$200 million and HK\$100 million respectively be and are hereby approved; and
- (c) the directors of the Company (the “**Directors**”) be and are hereby authorized to execute such documents and do such acts and things as they consider desirable, necessary or expedient in connection with and to give effect to the Supply Agreement and the transactions contemplated thereunder.”

NOTICE OF EGM

2. **“THAT:**

- (a) the 15 sale agreements (the **“Previous CCT Agreements”**) entered into between Beijing Telenet and Intradak during the period from August 2011 to June 2012 (the **“Period”**) in relation to the sale of the lottery vending terminals by Beijing Telenet to Intradak, copies of which have been produced to the EGM collectively marked **“B”** and signed by the chairman of the EGM for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;
- (b) the total amount of approximately HK\$64 million sold by Beijing Telenet to Intradak in relation to the sales and delivery of the Products pursuant to the Previous CCT Agreements during the Period be and is hereby approved, confirmed and ratified; and
- (c) the Directors be and are hereby authorized to execute such documents and do such acts and things as they consider desirable, necessary or expedient in connection with and to give effect to the Previous CCT Agreements and the transactions contemplated thereunder.”

3. **“THAT:**

Mr. Chrysafidis, Evangelos be and is hereby re-elected as an executive Director.”

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

Hong Kong, 11 June 2012

Registered office:

4th Floor, Scotia Centre
P.O. Box 2804
George Town
Grand Cayman
Cayman Islands

Head office and principal place

of business in Hong Kong:
Units 3101-2A, 31st Floor
The Centrium
60 Wyndham Street
Central, Hong Kong

Notes:

- (i) A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (ii) Where there are joint holders of any share of the Company, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the Register of Members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

NOTICE OF EGM

- (iii) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not less than 48 hours before the time appointed for holding the Meeting.
- (iv) Completion and return of the form of proxy will not preclude a member from attending the Meeting and voting in person at the Meeting or any adjournment thereof if he so desires. If a member attends the Meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.