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新濠環彩
MelcoLot

MelcoLot Limited

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

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 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 (the "**GEM Listing Rules**") for the purpose of giving information with regard to MelcoLot Limited. The directors of MelcoLot Limited, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	**2011** **HK$'000**	2010 HK$'000
Revenue	5	**96,622**	80,608
Changes in inventories of finished goods and work-in-progress		**(12,494)**	16,924
Purchase of inventories and raw materials consumed		**(71,131)**	(85,591)
Other income and gains		**37,126**	1,000
Employee benefits costs		**(18,852)**	(19,273)
Depreciation and amortisation		**(6,732)**	(22,009)
Impairment losses on:			
– intangible assets		**(75,035)**	–
– trade and other receivables	12	**(11,744)**	–
– amount due from an associate		**(2,436)**	–
– interest in an associate		**(1,393)**	–
– goodwill		**(27,903)**	(38,791)
Share of results of associates		**(3,976)**	(4,743)
Share of results of jointly controlled entities		**(480)**	263
Other expenses		**(28,293)**	(25,457)
Finance costs	7	**(89,098)**	(78,155)
Loss before taxation		**(215,819)**	(175,224)
Taxation	8	**(113)**	3,939
Loss for the year	9	**(215,932)**	(171,285)
Other comprehensive income			
Exchange differences arising on translation		**(29,834)**	3,382
Total comprehensive expense for the year		**(245,766)**	(167,903)
Loss for the year attributable to:			
Owners of the Company		**(209,219)**	(160,908)
Non-controlling interests		**(6,713)**	(10,377)
		(215,932)	(171,285)
Total comprehensive expense attributable to:			
Owners of the Company		**(239,675)**	(157,526)
Non-controlling interests		**(6,091)**	(10,377)
		(245,766)	(167,903)
Loss per share	11		
Basic and diluted		**(HK41.60 cents)**	(HK32.03 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	NOTES	2011 HK$'000	2010 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**12,901**	9,831
Goodwill		**–**	27,903
Intangible assets		**–**	77,277
Interests in associates		**2,888**	8,257
Interests in jointly controlled entities		**–**	11,898
Available-for-sale investment		**138,102**	138,802
		153,891	273,968
CURRENT ASSETS			
Inventories		**29,551**	41,219
Trade and other receivables	12	**94,403**	38,251
Amounts due from jointly controlled entities		**–**	33,362
Amounts due from a related company		**–**	10,503
Amount due from an associate		**–**	1,000
Bank balances and cash		**26,676**	43,978
		150,630	168,313
CURRENT LIABILITIES			
Trade and other payables	13	**71,109**	68,208
Amounts due to related companies		**11,340**	10,540
Amount due to an associate		**3,074**	6,139
Tax payable		**1,735**	2,321
Loan from a related company		**80,000**	80,000
Convertible bonds		**554,714**	–
		721,972	167,208
NET CURRENT (LIABILITIES) ASSETS		**(571,342)**	1,105
		(417,451)	275,073
CAPITAL AND RESERVES			
Share capital		**5,030**	5,026
Reserves		**(620,435)**	(380,160)
Equity attributable to owners of the Company		**(615,405)**	(375,134)
Non-controlling interests		**24,900**	9,853
TOTAL CAPITAL DEFICIENCY		**(590,505)**	(365,281)
NON-CURRENT LIABILITY			
Convertible bonds		**173,054**	640,354
		(417,451)	275,073

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the GEM of the Stock Exchange since 17 May 2002.

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

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Company and its subsidiaries (the "Group") incurred a loss of approximately HK$215,932,000 during the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets and total assets by approximately HK$571,342,000 and HK$417,451,000, respectively.

To deal with these financial and liquidity issues, the Company intended to carry out a reorganisation of the Group's lottery business, which involved obtaining control of an entity over which the Group previously had joint control, in addition to making equity investments in certain subsidiaries during the year. The Company entered into negotiations with a number of parties, together with all substantial shareholders of the Company defined under the Securities and Futures Ordinance (the "Substantial Shareholders"), in relation to its ongoing group reorganisation, which included among other matters, (i) very substantial disposals and repurchases of certain convertible bonds issued by the Company to certain Substantial Shareholders, each of the repurchases may constitute a share repurchase under the Hong Kong Code on Share Repurchases, (ii) an open offer, (iii) special deals and a whitewash waiver under the Hong Kong Code on Takeovers and Mergers, and (iv) the proposed increase in the authorised share capital of the Company. No agreements have yet been reached as at the date these consolidated financial statements are authorised for issuance.

The Company has obtained assurances from its Substantial Shareholders that it is their policy to provide support and assistance as may be required to enable the Group to maintain capital and liquidity levels at levels sufficient to meet its obligations. Furthermore, the holders of the Company's convertible bonds have agreed not to request cash redemption of those bonds on or before the maturity dates unless the Group has the necessary financial resources available for cash redemption to occur. In reviewing the Group's current and future financial position, the directors of the Company have considered the following factors:

- The agreement by the bondholders not to request cash redemption of the convertible bonds on or before the maturity dates unless the Group has the necessary financial resources available for cash redemption to occur;

- The likelihood of concluding the very substantial disposals and repurchases of certain convertible bonds;
- The possibility of making an open offer;
- The potential for restructuring or capitalising of the loan from a related company beneficially owned by certain Substantial Shareholders to equity, the repayment date of which has been further extended one year to 14 July 2013 subsequent to the end of the reporting period; and
- The possibility of new business opportunities described above.

In light of the matters set out in the preceding paragraphs, the directors of the Company have prepared the consolidated financial statements on a going concern basis.

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

In the current year, the Group has applied the following new and revised standard, amendments and interpretation ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs in the current year had had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. There will be no impact to the Group as there are no such financial liabilities.

The directors anticipate that the adoption of HKFRS 9 in the future might have significant impact on amounts reported in respect of the Group's available-for-sale investment, which is measured at cost less impairment at the end of the reporting period before the application of the new standard.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK (SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK (SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements.

In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and, based on the existing group structure, the application of these five standards will have no significant impact on amounts reported in the consolidated financial statements.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

5. REVENUE

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

	2011	2010
	HK$'000	*HK$'000*
Lottery business		
Provision of services and solutions for distribution of lottery products	**13,241**	12,169
Manufacturing and sales of lottery terminals	**83,381**	68,439
	96,622	80,608

6. SEGMENT INFORMATION

The Group's revenue and contribution to loss were solely derived from lottery business which comprises provision of management services for distribution of lottery products and manufacturing and sales of lottery terminals. The chief operating decision maker, the Chief Executive Officer, reviews the internally reported information for the lottery business as a whole and review the consolidated financial information of the Group for purposes of resource allocation and performance assessment. Accordingly, the Group has only one operating segment, which is the lottery business. No segment analysis is presented other than entity-wide disclosures.

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

Geographical information

The Group's operations are carried out in the PRC and revenue from external customers based on the location of goods delivered is derived in the PRC.

The following is an analysis of the non-current assets (other than financial instruments), analysed by the geographical area in which the assets are located:

	2011	2010
	HK$'000	*HK$'000*
Non-current assets		
The PRC	**15,594**	134,848
Hong Kong	**195**	318
	15,789	135,166

Information about major customers

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

	2011	2010
	HK$'000	*HK$'000*
Customer A	**57,682**	–
Customer B	**25,648**	67,009

Over 83% of the Group's revenue in 2010 came from Customer B, Beijing Telenet Information Technology Ltd. ("Beijing Telenet"), a jointly controlled entity of the Group. Beijing Telenet became a subsidiary of the Group on 27 July 2011.

Immediately after the acquisition of Beijing Telenet, sales of Beijing Telenet to Customer A thereafter account for the largest revenue for the Group in 2011.

7. FINANCE COSTS

	2011	2010
	HK$'000	*HK$'000*
Interest on:		
Loan from a related company wholly repayable within five years	**800**	2,511
Effective interest expense on convertible bonds	**88,298**	75,644
	89,098	78,155

8. TAXATION

	2011	2010
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– Current year	**113**	–
Deferred taxation		
– Current year	**–**	(3,939)
	113	(3,939)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong Profits Tax was provided since the Hong Kong subsidiaries have incurred losses from operations for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

9. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2011	2010
	HK$'000	*HK$'000*
Amortisation of intangible assets	**2,265**	18,323
Depreciation of property, plant and equipment	**4,467**	3,686
Total depreciation and amortisation	**6,732**	22,009
Directors' emoluments	**4,298**	4,028
Other staff costs:		
Salaries and other benefits	**10,280**	11,215
Retirement benefit scheme contributions	**1,535**	1,190
Share-based payments	**2,739**	2,840
Total employee benefit expenses	**18,852**	19,273
Auditor's remuneration	**1,220**	1,170
Allowance for inventories (included in purchase of inventories and raw materials consumed)	**8,101**	2,106
Write-off of other receivables	**–**	545
Loss on disposal of property, plant and equipment	**462**	596
Operating lease rentals in respect of land and buildings	**4,476**	4,134
Charity Donation	**2,360**	2,280
Net foreign exchange loss	**–**	166
and after crediting:		
Net foreign exchange gain	**36,301**	–
Bank interest income	**44**	78
Other interest income	**122**	623

10. DIVIDENDS

No dividend was declared or proposed during 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

11. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year ended 31 December 2011 is based on the loss attributable to the owners of the Company of HK$209,219,000 (2010: HK$160,908,000) and on the weighted average number of 502,936,686 (2010: 502,394,034) ordinary shares in issue during the year.

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

12. TRADE AND OTHER RECEIVABLES

	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**84,134**	13,260
Less: allowance for doubtful debts	**(1,276)**	–
	82,858	13,260
Other receivables	**19,959**	23,631
Less: allowance for doubtful debts	**(10,468)**	–
	9,491	23,631
Prepayments and deposits	**2,054**	1,360
	94,403	38,251

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

	2011	2010
	HK$'000	*HK$'000*
Within 30 days	**24,752**	5,831
31 – 90 days	**33,515**	371
91 – 180 days	**14,927**	612
181 – 365 days	**2,944**	407
Over 365 days	**6,720**	6,039
	82,858	13,260

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

Included in the Group's trade receivable balance were debtors with aggregate carrying amount of HK$24,591,000 (2010: HK$7,058,000) which were past due at the end of the reporting period but not considered as impaired. Majority of the trade receivables that were neither past due nor impaired had no default repayment history. Included in trade receivables were amounts of HK$5,617,000 (2010: HK$5,960,000) due from a subsidiary of a substantial shareholder of the Company and amounts of HK$70,180,000 (2010: Nil) due from a subsidiary of a 37.5% non-controlling shareholder of a group entity. The amounts are unsecured, interest-free and repayable according to credit terms granted to the subsidiary of the substantial shareholder.

13. TRADE AND OTHER PAYABLES

	2011	2010
	HK$'000	*HK$'000*
Trade payables *(note)*	**56,241**	62,220
Other payables	**10,575**	4,963
Accruals	**4,293**	1,025
	71,109	68,208

Note: Included in trade payables were amounts of HK$45,903,000 (2010: HK$62,128,000) due to a subsidiary of a substantial shareholder of the Company. The amounts are unsecured, interest-free and repayable according to credit terms granted by the subsidiary of the substantial shareholder.

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

As at 31 December 2011, an amount of HK$5,944,000 (2010: Nil) included in other payables, is denominated in currency other than the functional currency of the relevant group entity.

CEO'S STATEMENT

TO OUR SHAREHOLDERS

For and on behalf of the board of directors (the "Board"), I present the annual results of MelcoLot Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2011.

During the year, the loss attributable to shareholders amounted to HK$209.2 million. The losses were primarily comprised of non-cash charges such as impairment losses on intangible assets and goodwill, depreciation and amortisation expenses and imputed interest on convertible bonds.

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

The Group is a prominent supplier of high quality, lottery terminals for the China Sports Lottery Association (the "CSLA"). The Company was impacted by the CSLA's new procurement cycle which did not commence during the year as expected. Consequently, the Group needed to adopt a low margin strategy to maintain market share and this considerably impacted top and bottom lines. The CSLA did commence the evaluation process for new terminals in the third quarter of 2011; however, no outcome is expected until the third quarter of 2012.

In this regard, the Group strengthened its position on the distribution side of the terminal business. The Group has acquired majority control of Beijing Telenet, formerly a jointly controlled entity of the Group. As a result, the Group is now better positioned to benefit from any upsurge in the terminal distribution sector after the new procurement cycle of the CSLA commences.

The Group also acquired the remaining 20% stake in an operating subsidiary, PAL Development Limited ("PAL"), such that PAL is now the wholly owned subsidiary of the Group. In addition, the Group also increased the capitalization of its own stake in an operating subsidiary,山東省開創紀元電子商務信息有限公司, which is engaged in telephone betting in Shandong. Further details are mentioned in the Acquisitions section of the Management Discussion and Analysis.

During the year, the Group streamlined operations in the retail business and implemented various cost-cutting measures. The Group made developmental efforts in the paperless channels of the distribution of lottery products and services. Along these lines, steady progress was made in developing the multimedia content distribution channel for the Shi Shi Cai game in Chongqing of the People's Republic of China (the "PRC") and in enhancing paperless platforms in Shandong and Shanghai of the PRC.

The foregoing strategic changes form part of the Group's ongoing efforts to enhance its operating structure and strengthen its financial position. The Group is also engaged in efforts to reduce its overall liabilities through reorganization. While no binding agreements have been entered into to date, the Group will comply with the relevant disclosure requirements and make announcements at the appropriate time.

PROSPECTS

According to the regulations on lottery management that were recently released by China's Ministry of Finance and Ministry of Civil Affairs, all lottery ticket sales by unlicensed organizations are designated as "illegal lotteries" as of 1 March 2012. As a result, many lottery websites in the PRC recently announced the suspension of lottery ticket sales for both the CSLA and the China Welfare Lottery Issuing Centre, pending approval by the regulatory bodies. These developments are anticipated to aid the formal and planned development of paperless lottery distribution channels. The implementation of standardized formal approval and operating requirements should aid the development of the industry as a whole. This environment could be favorable to organizations with access to advanced industry know-how and global best practices. The Group will seek to capitalize on its strategic relationship with global lottery industry leader Intralot S.A., and existing licensing arrangements for the use of its technology in the PRC. Intralot S.A. offers custom-made integrated solutions that ensure maximum security to players, regulators and operators. It is renowned for advanced product development standards and has extensive experience as a supplier and operator in varied environments worldwide. This means that the Group has access to world class technology and cutting-edge solutions that can be deployed effectively in the PRC.

It is clear that the PRC lottery markets will be increasingly regulated by the government. The robust growth of the market sales also continues unabated. Paperless sales channels appear to be the next frontier for rapid growth expansion in the market. Within this scenario, management will focus its developmental efforts on leveraging its advanced expertise in the area of paperless lottery distribution channels and technology solutions.

The CSLA exercise to evaluate and approve lottery terminals under the new procurement cycle is now underway. Although this exercise has been significantly delayed over the past couple of years, there is more clarity now and it is expected that the certification of new terminals will be approved over the course of the year. By acquiring Beijing Telenet to strengthen its position in the terminal distribution business, the Group is in a better position to forge ahead once the new procurement cycle commences.

CONCLUSION

The Group has undertaken numerous strategic initiatives in alignment with the development of the PRC lottery market. In addition, various efforts are in progress to improve its operating and capital structure. The management team remains committed to identifying and capitalizing on sustainable, profitable opportunities. I am confident that the investments made over the past years and the ongoing initiatives will position us on an enduring path to long-term success. I look forward to the growth of the Company in partnership with our shareholders, suppliers, business partners, bankers and customers. The management and the Board remain resolutely committed to the future of the Company for the benefit of its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is primarily engaged in the provision of lottery-related technologies, systems and solutions in Asia. It is a recognized manufacturer and distributor of high quality, versatile lottery terminals for the lottery authorities in the PRC. The Group has developed a wide retail presence across several provinces in the PRC by managing a network of retail outlets for the 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 Welfare Lottery and China Sports Lottery. As the license holder in the PRC for Intralot S.A.'s world leading lottery technologies, the Group is the multimedia content distribution systems provider of the high frequency game "Shi Shi Cai" in the Chongqing municipality of the PRC. The Group is also a member of the Nanum Lotto consortium which is the exclusive operator of South Korea's national welfare lottery.

According to the Ministry of Finance, 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. In order to cope with this growing trend, strengthen its competitiveness and prepare for the new challenges in this market, the Group intends to carry out a reorganization of its lottery business, of which the acquisitions below are comprised.

ACQUISITIONS

(i) On 18 January 2011, the Group entered into a supplemental agreement with Shandong Zhenglu Industrial Company Limited ("Shandong Zhenglu"), the non-controlling shareholder of the Company's subsidiary,山東省開創紀元電子商務信息有限公司（"開創紀元"）, established in the PRC, following which the registered capital of開創紀元was increased from RMB2,666,700 to RMB10,000,000. The Group and Shandong Zhenglu contributed RMB4,900,000 and RMB2,433,300 respectively for the additional capital. The Group has also agreed to pay the sum of RMB2,433,300 to Shandong Zhenglu for its services rendered for開創紀元to obtain the telephone lottery license in Shandong Province, the PRC. Upon completion of the supplemental agreement, the Group holds 65% equity interests in開創紀元, which will continue to be treated as an indirect, non wholly-owned subsidiary of the Company.

(ii) As announced on 27 July 2011 by the Company, the board of directors of Beijing Telenet, formerly a jointly controlled entity of the Group established in the PRC and principally engaged in the distribution of lottery terminals in the PRC, passed a board resolution to amend its articles of association so that certain board resolutions relating to the financial and operating policies of Beijing Telenet could be passed by simple majority votes. Following the amendments, the Group has the voting rights to effectively control the board of Beijing Telenet. As such, Beijing Telenet became an indirect 52.5% owned subsidiary of the Company and its financial information has been consolidated into the financial statements of the Group since the acquisition.

(iii) Pursuant to a sale and purchase agreement dated 19 September 2011, the Group acquired 20% interest in PAL, a Hong Kong incorporated company principally engaged in the lottery business in the PRC through its subsidiaries, from LottVision Investments Holdings Limited, a wholly-owned subsidiary of Singapore listed LottVision Limited, for a consideration of HK$250,000. Upon completion of the acquisition, PAL became an indirect, wholly-owned subsidiary of the Company.

In addition, the Company entered into negotiations with a number of parties in relation to the aforementioned group reorganization. Aside from the contents disclosed, no legally binding agreement or contract has been entered into as of the date of this report. The group reorganization, if implemented, will reduce the overall liabilities of the Group. The Company will comply with the relevant disclosure requirements and make further announcements in the event that the Company enters into any agreements which, if carried out, would constitute notifiable transactions of the Company under the GEM Listing Rules.

OUTLOOK

Paperless channels of distribution appear poised to steer in the next phase of rapid growth in the PRC lottery industry. The recent government directions were aimed at improving the regulation of internet lottery and are positive developments that are expected to promote the orderly growth of this sector of the market. It is also expected that paperless channels will impact the growth of traditional sales channels such as retail shops to some degree. In response to these developments, the Group has aligned its operations by focusing on paperless channels and technology solutions and is carefully rationalizing its venue management consultancy business.

The Group's project in Chongqing of the PRC, in regards to the popular Shi Shi Cai game, has shown steady development. The roll-out of the advanced multimedia content delivery system currently under implementation will enhance sales and lead to incremental revenues for the Group. In addition, it will serve as a model for projects in other provinces. The Group has also made significant progress in upgrading the paperless platform for ticket distribution in Shandong of the PRC.

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. Against this backdrop, the Group continues to maintain a selective presence in various industry verticals such as venue management consultancy, scratch distribution and provision of terminals to lottery authorities.

In this regard, the commencement of the evaluation process of terminals for CSLA's new procurement cycle is a positive development. The Group's strategic move to acquire control over Beijing Telenet has positioned it well for continued and active participation in the terminal distribution business after commencement of the new procurement cycle.

At a corporate level, the Group is actively developing an approach to significantly improve the capital structure and reduce the overall liabilities. This will strengthen the Group's position in exploiting new business opportunities.

FINANCIAL REVIEW

During the year, revenues of the Group increased by 20%, amounting to HK$96.6 million (2010: HK$80.6 million). The Group continues to be engaged in one operating segment which is the lottery business. The Group's revenue for the year is analyzed by two categories as follows:

(1) Provision of management services for the distribution of lottery products

Revenues from the provision of management services for the distribution of lottery products rose by 8%, amounting to HK$13.2 million (2010: HK$12.2 million), which was primarily generated by the management of lottery retail outlets, high frequency games outlets and the distribution of scratch cards in the PRC.

(2) Manufacturing and sales of lottery terminals

The Group also generated income from the manufacturing and sales of lottery terminals for China Sports Lottery Administration Centre ("CSLA"), amounting to HK$83.4 million for the year ended 31 December 2011 (2010: HK$68.4 million). A significant increase of 22% was due to the consolidation of the revenue of Beijing Telenet into the Group given that it became a non wholly-owned subsidiary in July 2011. The Group adopted a low-pricing strategy in order to maintain the market share since the new equipment procurement cycle of CSLA had not yet been finalized. The Group was working with another substantial shareholder of the Company, Firich Enterprises Co., Ltd. ("Firich"), which is listed on the Taiwan Gre Tai Securities Market. Firich is a leading, worldwide point-of-sale system manufacturer.

Operating results

The Group's loss for the year was HK$215.9 million, an increase of 26% from HK$171.3 million in 2010. This mainly included the following non-cash items:

(i) imputed interest on convertible bonds amounting to HK$88.3 million (2010: HK$75.6 million) due to the liability component of the convertible bonds carried at amortized costs by using the effective interest method;

(ii) one-off impairment loss on intangible assets in relation to the expiry of the exclusivity period for the lottery software licenses in December 2011 amounting to HK$75.0 million (2010: Nil);

(iii) depreciation and amortization expenses of property, plant and equipment and intangible assets of HK$6.7 million (2010: HK$22.0 million); and

(iv) other impairment losses collectively amounting to HK$43.5 million (2010: HK$38.8 million).

The Group also incurred non-cash net foreign exchange gain of HK$36.3 million (2010: exchange loss of HK$166,000) mostly arising on translation of convertible bonds, which partly offset the above mentioned losses.

The Group has further streamlined its operations and imposed tight cost control measures in all applicable areas. For the year ended 31 December 2011, employee benefits costs amounted to HK$18.9 million (2010: HK$19.3 million), represented a decrease of 2% year-on-year. Upon absorbing the operating costs of Beijing Telenet, however, other administrative expenses increased to HK$28.3 million (2010: HK$25.5 million) for the year ended 31 December 2011. This represented an increase of 11% compared to the corresponding period in 2010.

The Group also shared losses of associates, which are in the development stage of paperless lottery sales channels, amounting to HK$4.0 million for the year ended 31 December 2011 (2010: HK$4.7 million).

A tax charge of approximately HK$113,000 was provided for the year ended 31 December 2011 in relation to the subsidiaries operating in the PRC. In the year 2010, a tax credit of HK$3.9 million arising from fair value adjustments of intangible assets on previous business combinations was recorded.

Basic loss per share for the year ended 31 December 2011 increased by 30% to HK41.60 cents (2010: HK32.03 cents).

SIGNIFICANT INVESTMENT HELD

Available-for-sale investment

At 31 December 2011, the available-for-sale investment with a carrying amount of HK$138.1 million (2010: HK$138.8 million) represented a 14% equity interest in Nanum Lotto Inc., a consortium incorporated in South Korea and formed by renowned international and Korean partners that possesses an exclusive license to operate nation-wide lotteries in South Korea. No investment income was received from the available-for-sale investment for the year ended 31 December 2011 (2010: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group continues to manage its balance sheet thoroughly and maintains conservative policies in cash and financial management. Surplus funds were placed in interest-bearing deposits with banks. As at 31 December 2011, bank balances and cash, denominated principally in Hong Kong dollars and Renminbi, amounted to HK$26.7 million (2010: HK$44.0 million). The Group does not maintain any bank borrowings and generally financed its operations and serviced its debts with internal resources, comprised of a loan from a related company and convertible bonds.

The loan from a related company of HK$80 million, which is classified as a current liability of the Group, is repayable on 14 July 2012 and bears interest at 1% per annum. It is payable to a related company that is beneficially owned by two substantial shareholders of the Company. Subsequent to the end of the reporting period, the repayment date of the loan has been further extended by one year to 14 July 2013 with other terms remaining unchanged.

The convertible bonds, with a total principal amount of HK$884.0 million and held entirely by four substantial shareholders of the Company, namely Melco International Holdings Limited, Intralot S.A., Global Crossing Holdings Ltd. and Firich, are denominated in Hong Kong dollars. They bear interest at 0.1% per annum and entitle the holders to convert into ordinary shares of the Company within five years from the date of issue, subject to the terms and conditions of the instruments. If the convertible bonds have not been converted, they will become due for redemption on maturity dates of 13 December 2012 and 9 December 2013 for the principal amounts of HK$606.8 million and HK$277.2 million, respectively. As at 31 December 2011, the total liability component of the convertible bonds carried on the balance sheet of the Company amounting to HK$727.8 million (2010: HK$640.4 million), consisted of HK$554.7 million and HK$173.1 million and were classified as current liabilities and non-current liabilities respectively. The increase in the total liability component was mainly due to the non-cash imputed interest calculated using the effective interest method.

As at 31 December 2011, net current liabilities of the Group amounted to HK$571.3 million (2010: net current assets of HK$1.1 million). The year-on-year change was primarily due to the reclassification of the convertible bonds amounting to HK$554.7 million from non-current liabilities as of 31 December 2010 to current liabilities as of 31 December 2011. The debt ratio, being total debt divided by total assets, was 3.0 as at 31 December 2011 (2010: 1.8). The Group carried a capital deficiency, attributable to the owners of the Company, amounting to HK$615.4 million (2010: HK$375.1 million) mainly due to the liability component of the convertible bonds and the accumulated losses primarily generated by non-cash accounting charges.

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

At 31 December 2011, the Group had no capital commitments (2010: HK$11.9 million), contracted but not provided for, in the consolidated financial statements.

In the opinion of the Directors, the Company had no reserves available for distribution as at 31 December 2011 and 2010.

CHARGES ON GROUP ASSETS

The convertible bonds of the Company are secured by the shares of certain subsidiaries of the Company as at 31 December 2011.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2011, all assets and liabilities of the Group were denominated in United States dollars, Hong Kong dollars, Renminbi and Korean Won. During the year, the business activities of the Group were mainly denominated in Hong Kong dollars and Renminbi. Since the impact of foreign exchange exposure has been insignificant, no hedging or other alternatives have been implemented.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The auditor expresses an unqualified opinion in the auditor's report, but wishes to draw attention by adding the emphasis of matter as follows:

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011, and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicates that the Group incurred a loss of approximately HK$215,932,000 during the year ended 31 December 2011 and, as of that date, the Group's current liabilities exceeded its current assets and total assets by approximately HK$571,342,000 and HK$417,451,000, respectively. Note 2 to the consolidated financial statements further describes the financing and liquidity issues the Group is currently facing and measures being taken or contemplated to deal with them. The eventual success of these measures cannot presently be determined and accordingly, these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

EMPLOYEE INFORMATION

As at 31 December 2011, the Group had a total of 83 full-time employees (2010: 91). The Group continues to provide remuneration packages to employees in line with market practices and past performance. In addition to basic remuneration, the Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option schemes and staff training programs.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2011.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company reviewed the 2011 consolidated financial statements in conjunction with the external auditor. Based on this review and discussions with the management, the Audit Committee is satisfied that the consolidated financial statements have been prepared in accordance with applicable accounting standards and fairly present the Group's financial position and results for the year ended 31 December 2011.

CORPORATE GOVERNANCE

The Company applies the principles set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the GEM Listing Rules to maintain a sound and effective system of checks and balance and internal controls in the leadership, executive management and business operations of the Group. In practicing corporate governance in line with, sometimes exceeding, the Code provisions, the Board is conscientious for the benefits of its shareholders and the investing public. During the year ended 31 December 2011 under review, the Company complied with all the provisions on the Code contained in Appendix 15 to the GEM Listing Rules and, where appropriate, also the recommended best practices.

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

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

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the Company's website at www.melcolot.com and the HKExnews website at www.hkexnews.hk. The 2011 Annual Report will be available on both websites and despatched to shareholders of the Company on or about Friday, 30 March 2012.

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

Hong Kong, 28 March 2012

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 (Chairman) 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.