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MelcoLot Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8198)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 (the "Company" and together with its subsidiaries collectively the "Group") 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 the Company. The directors of the Company, 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 2012

	NOTES	**2012** *HK$'000*	2011 *HK$'000*
Revenue	6	**86,940**	96,622
Changes in inventories of finished goods and work-in-progress		**8,229**	(12,494)
Purchase of inventories and raw materials consumed		**(80,572)**	(71,131)
Other income, gains and losses		**8,166**	37,126
Employee benefits costs		**(15,159)**	(18,852)
Depreciation and amortisation		**(2,967)**	(6,732)
Gain on group restructuring	9	**226,767**	–
Impairment losses on:			
– property, plant and equipment		**(3,138)**	–
– intangible assets		**–**	(75,035)
– trade and other receivables		**(19,064)**	(11,744)
– amount due from an associate		**–**	(2,436)
– interest in an associate		**–**	(1,393)
– goodwill		**–**	(27,903)
Share of results of associates		**(2,581)**	(3,976)
Share of results of jointly controlled entities		**–**	(480)
Other expenses		**(21,686)**	(28,293)
Finance costs	8	**(93,023)**	(89,098)
Profit (loss) before taxation		**91,912**	(215,819)
Taxation	10	**(21,371)**	(113)
Profit (loss) for the year	11	**70,541**	(215,932)
Other comprehensive expense			
Exchange differences arising on translation		**(4,328)**	(29,834)
Total comprehensive income (expense) for the year		**66,213**	(245,766)
Profit (loss) for the year attributable to:			
Owners of the Company		**78,981**	(209,219)
Non-controlling interests		**(8,440)**	(6,713)
		70,541	(215,932)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**74,474**	(239,675)
Non-controlling interests		**(8,261)**	(6,091)
		66,213	(245,766)
			(Restated)
Earnings (loss) per share	13		
– Basic		**HK9.21 cents**	(HK31.75 cents)
– Diluted		**(HK2.25 cents)**	(HK31.75 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	NOTES	**2012** **HK$'000**	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**5,975**	12,901
Goodwill		**–**	–
Intangible assets		**–**	–
Interests in associates		**307**	2,888
Interest in a jointly controlled entity		**–**	–
Available-for-sale investment		**–**	138,102
		6,282	153,891
CURRENT ASSETS			
Inventories		**–**	29,551
Trade and other receivables	14	**66,741**	94,403
Amount due from a related company		**106**	–
Amount due from an associate		**–**	–
Bank balances and cash		**29,121**	26,676
		95,968	150,630
CURRENT LIABILITIES			
Trade and other payables	15	**58,358**	71,109
Amount due to immediate holding company	18	**241,277**	–
Amount due to a related company		**190**	9,006
Amount due to a shareholder of a jointly controlled entity		**2,334**	2,334
Amount due to an associate		**190**	3,074
Tax payable		**20,858**	1,735
Loan from a related company		**–**	80,000
Convertible bonds	16	**–**	554,714
		323,207	721,972
NET CURRENT LIABILITIES		**(227,239)**	(571,342)
		(220,957)	(417,451)
CAPITAL AND RESERVES			
Share capital	17	**22,886**	5,030
Reserves		**(255,750)**	(620,435)
Deficiency of equity attributable to owners of the Company		**(232,864)**	(615,405)
Non-controlling interests		**11,907**	24,900
TOTAL CAPITAL DEFICIENCY		**(220,957)**	(590,505)
NON-CURRENT LIABILITY			
Convertible bonds	16	**–**	173,054
		(220,957)	(417,451)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Share-based payment reserve *HK$'000*	PRC statutory reserves *HK$'000* *(Note i)*	Other reserve *HK$'000* *(Note ii)*	Convertible bonds equity reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 January 2011	5,026	368,923	26,501	3,543	–	645,492	40,790	(1,465,409)	(375,134)	9,853	(365,281)
Exchange differences arising on translation	–	–	–	–	–	–	(30,456)	–	(30,456)	622	(29,834)
Loss for the year	–	–	–	–	–	–	–	(209,219)	(209,219)	(6,713)	(215,932)
Total comprehensive expense for the year	–	–	–	–	–	–	(30,456)	(209,219)	(239,675)	(6,091)	(245,766)
Recognition of equity-settled share-based payments	–	–	4,299	–	–	–	–	–	4,299	–	4,299
Issue of ordinary shares upon exercise of share options	4	40	(17)	–	–	–	–	–	27	–	27
Release on disposal of a jointly controlled entity	–	–	–	–	–	–	(3,464)	3,464	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	13,463	13,463
Acquisition of additional interests in subsidiaries	–	–	–	–	(4,922)	–	–	–	(4,922)	4,672	(250)
Capital contribution by non-controlling interest	–	–	–	–	–	–	–	–	–	3,003	3,003
At 31 December 2011	5,030	368,963	30,783	3,543	(4,922)	645,492	6,870	(1,671,164)	(615,405)	24,900	(590,505)
Exchange differences arising on translation	–	–	–	–	–	–	(4,507)	–	(4,507)	179	(4,328)
Profit (loss) for the year	–	–	–	–	–	–	–	78,981	78,981	(8,440)	70,541
Total comprehensive income (expense) for the year	–	–	–	–	–	–	(4,507)	78,981	74,474	(8,261)	66,213
Recognition of equity-settled share-based payments	–	–	460	–	–	–	–	–	460	–	460
Issue of ordinary shares upon exercise of share options	53	1,015	(411)	–	–	–	–	–	657	–	657
Release on disposal of subsidiaries *(note 9)*	–	–	–	(3,543)	–	–	(42,515)	46,058	–	(4,732)	(4,732)
Release on settlement of loan from a related company	–	–	–	–	–	–	4,663	(4,663)	–	–	–
Repurchase of convertible bonds *(note 16)*	–	–	–	–	–	(210,401)	17,995	192,406	–	–	–
Issue of new shares *(note 17)*	15,073	102,494	–	–	–	–	–	–	117,567	–	117,567
Transaction costs attributable to issue of new shares	–	(1,505)	–	–	–	–	–	–	(1,505)	–	(1,505)
Conversion of convertible bonds *(note 16)*	2,730	380,804	–	–	–	(192,646)	9,374	(9,374)	190,888	–	190,888
Release on maturity of convertible bonds *(note 16)*	–	–	–	–	–	(242,445)	11,797	230,648	–	–	–
At 31 December 2012	22,886	851,771	30,832	–	(4,922)	–	3,677	(1,137,108)	(232,864)	11,907	(220,957)

Notes:

(i) For subsidiaries established in the People's Republic of China, other than Hong Kong, (the "PRC") statutory reserves represented the appropriation of 10% of profit after taxation determined based on the PRC accounting standards and the relevant PRC laws applicable to the Group's PRC subsidiaries. The appropriation may cease to apply if the balance of the PRC statutory reserves has reached 50% of the registered capital of the respective PRC subsidiaries.

(ii) On 18 January 2011, the Group entered into a supplemental agreement with Shandong Zhenglu Industrial Company Limited ("Shandong Zhenglu"), a non-controlling shareholder of 山東省開創紀元電子商務信息有限公司 ("開創紀元"), a 60% owned subsidiary of the Company immediately before the transaction. Pursuant to the agreement, the registered capital of 開創紀元 was increased from RMB2,666,700 to RMB10,000,000 of which RMB4,900,000 (equivalent to HK$6,047,000) and RMB2,433,300 (equivalent to HK$3,003,000) were contributed by the Group and Shandong Zhenglu, respectively. Upon completion of the capital injection, the Group's equity interest in 開創紀元 was increased from 60% to 65%. The difference between the adjustment to non-controlling interests and the consideration paid, amounting to HK$154,000, was recognised as an equity transaction in other reserve.

On 19 September 2011, the Group entered into a sale and purchase agreement with LottVision Investments Holdings Limited ("LottVision"), the non-controlling shareholder of PAL Development Limited ("PAL Development"), a 80% owned subsidiary of the Company immediately before the transaction. Pursuant to the agreement, the Group agreed to purchase and LottVision agreed to sell its 20% equity interests in PAL Development, at a consideration of HK$250,000. Upon completion of the acquisition, PAL Development became a wholly-owned subsidiary of the Company. The difference between the adjustment to non-controlling interests and the consideration paid, amounting to HK$4,768,000, was recognised as an equity transaction in other reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

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

In December 2012, Melco LottVentures Holdings Limited ("Melco LV"), a private company incorporated in the British Virgin Islands, converted partially the outstanding convertible bonds into ordinary shares of the Company. In addition, Power Way Group Limited ("Power Way"), an associate of Melco LV, distributed all of its shares of the Company subscribed through an open offer (Note 17) to its shareholders, including Melco LV, in proportion to their respective holdings in Power Way. As a result, Melco LV owns the majority of shareholding of the Company and became the immediate holding company and Melco International Development Limited ("Melco"), a company incorporated in Hong Kong with its shares listed on the Stock Exchange, became the ultimate holding company.

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 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 Group has current liabilities which exceed current assets by approximately HK$227,239,000 as at 31 December 2012.

In addition, as disclosed in Note 18, the Company entered into a loan agreement with Melco LV in March 2013 to restructure the amount due to it from the Group with a principal amount of approximately HK$240,506,000 as a shareholder's loan plus accrued interest thereon with a final repayment date of 30 March 2014.

The consolidated financial statements have been prepared on a going concern basis because the directors of the Company are of the opinion that Melco LV will not demand immediate repayment of the shareholder's loan before 30 March 2014 unless the Group has adequate financial resources to do so, and taking into account the Group's cash flow projection for the coming year, the Group will have sufficient working capital to meet its liabilities as they fall due in the next twelve months from the end of the reporting period.

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

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

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the 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 HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle[2]
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]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[4]
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[1]
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[4]
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 2012.
[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 2014.

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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards are effective for annual periods beginning on or after 1 January 2013 with earlier application, together with the amendments relating to the transitional guidance, permitted provided that all of these five standards are applied early at the same time.

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.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

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 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. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of trade receivables is HK$62,866,000, net of allowance for doubtful debts of HK$14,633,000 (2011: HK$82,858,000, net of allowance for doubtful debts of HK$1,276,000). As at 31 December 2012, the carrying amount of other receivables is HK$2,792,000, net of allowance for doubtful debts of HK$15,012,000 (2011: HK$9,491,000, net of allowance for doubtful debts of HK$10,468,000).

Estimated impairment of property, plant and equipment

If there is any indication of impairment, determining the extent to which property, plant and equipment are impaired requires an estimation of the value in use of the CGUs to which they have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value.

As at 31 December 2012, the carrying amount of property, plant and equipment is HK$5,975,000 (2011: HK$12,901,000), net of accumulated impairment losses of HK$3,138,000 (2011: Nil).

Fair value of financial instruments

In determining the gain on group restructuring, the directors of the Company use their judgement in selecting an appropriate valuation technique for the Group's available-for-sale investment and convertible bonds that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. The estimation of fair value of the Group's available-for-sale investment includes some assumptions not supported by observable market prices or rates. Convertible bonds are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of the available-for-sale investment and convertible bonds. Where the actual outcomes are different from the chosen assumptions, a material difference to the gain on group restructuring may arise. Details of the calculation are disclosed in note 9.

6. REVENUE

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

	2012	2011
	HK$'000	*HK$'000*
Lottery business		
Provision of services and solutions for distribution of lottery products	**4,344**	13,241
Manufacturing and sales of lottery terminals	**82,596**	83,381
	86,940	96,622

7. SEGMENT INFORMATION

The Group's revenue and contribution to loss were solely derived from lottery business which comprises provision of services and solutions 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 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 6.

Geographical information

The Group's operations are carried out in the PRC and revenue from external customers based on the location of goods and services 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:

	2012	2011
	HK$'000	*HK$'000*
Non-current assets		
The PRC	**6,175**	15,594
Hong Kong	**107**	195
	6,282	15,789

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:

	2012	2011
	HK$'000	*HK$'000*
Customer A	**80,858**	57,682
Customer B	**–**	25,648

During the year ended 31 December 2011, Customer B, Beijing Telenet Information Technology Limited 北京電信達信息技術有限公司 ("BTI"), a jointly controlled entity of the Group became a subsidiary of the Group on 27 July 2011.

Immediately after the acquisition of BTI, sales of BTI to Customer A thereafter account for the largest revenue for the Group.

8. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on:		
Loan from a related company wholly repayable within five years	**695**	800
Effective interest expense on convertible bonds	**91,972**	88,298
Amount due to immediate holding company	**356**	–
	93,023	89,098

9. GAIN ON GROUP RESTRUCTURING

On 26 June 2012, the Company and Rising Move International Limited ("Rising Move") entered into an agreement with Intralot International Limited ("Intralot"), a substantial shareholder of the Company, in relation to the sale of the entire equity interest of Gain Advance Group Limited ("Gain Advance") and 49% equity interest of Precious Success Holdings Limited ("Precious Success"), and the repurchase of the entire convertible bonds due in 2013 ("Intralot 2013 Convertible Bonds") with outstanding principal of HK$277,175,310 by the Company from Intralot (collectively the "Intralot Disposal"). The consideration payable by Intralot for the purchase of the 100% equity interest of Gain Advance and 49% equity interest of Precious Success and the consideration payable by the Company for the repurchase of the Intralot 2013 Convertible Bonds were set off against each other at the completion of the Intralot Disposal.

On 26 June 2012, the Company and Rising Move entered into an agreement with Global Crossing Holdings Ltd. ("GCH"), a 32.86% non-controlling shareholder of Oasis Rich International Ltd. ("Oasis Rich"), in relation to the sale of the entire 60% equity interest of Oasis Rich, and the repurchase of GCH's portion of convertible bonds due in 2012 ("GCH 2012 Convertible Bonds") with outstanding principal of HK$175,188,566 by the Company from GCH (collectively the "GCH Disposal"). The consideration payable by GCH for the purchase of the 60% equity interest of Oasis Rich and the consideration payable by the Company for the repurchase of the GCH 2012 Convertible Bonds were set off against each other at the completion of the GCH Disposal.

On 14 August 2012, the Company proposed an open offer (the "Open Offer") of not more than 1,729,046,799 new ordinary shares of the Company of HK$0.01 each (the "Offer Shares") at a price of HK$0.078 per Offer Share on the basis of three new Offer Shares for every one existing share, to raise capital of not more than approximately HK$134.9 million, before share issue expenses. In addition, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Melco LV, a substantial shareholder of the Company, and Power Way, a related company and the lender of HK$80 million loan owed by the Company (the "Power Way Loan"), in relation to the Open Offer. Melco LV had agreed to underwrite not more than 128,205,128 underwritten shares in the first place provided that the total subscription price for the Offer Shares to be taken up by Melco LV shall not exceed HK$10 million and Power Way had agreed to underwrite not more than 1,145,361,487 underwritten shares in the second place provided that immediately upon completion of the Open Offer, the underwritten shares to be subscribed by Power Way together with the shares of the Company held or to be held by Melco LV and other non-public shareholders of the Company shall not be more than 75% of the total shareholdings of the Company as enlarged by the Offer Shares. The aggregate subscription price required to be paid by Power Way under the Underwriting Agreement had been settled by way of set off against the outstanding principal and accrued interest of the Power Way Loan.

The GCH Disposal, the Intralot Disposal and the Open Offer were conditional on each other and had been approved by independent shareholders by way of poll at the extraordinary general meeting held on 15 October 2012. On 12 November 2012, the GCH Disposal, the Intralot Disposal and the Open Offer were completed. Details of the Open Offer were further disclosed in Note 17.

Upon completion of the GCH Disposal and the Intralot Disposal, Oasis Rich and Gain Advance ceased to be subsidiaries of the Group and Precious Success became a 51% non wholly-owned subsidiary of the Group.

The gain arising on the GCH Disposal and the Intralot Disposal is determined as follows:

	HK$'000	*HK$'000*
GCH Disposal		
Carrying value of the liability component of GCH 2012 Convertible Bonds	173,868	
Carrying value of net assets of Oasis Rich attributable to the Group's 60% equity interest	(14,847)	
Gain on GCH Disposal recognised in profit or loss *(note a)*		159,021
Intralot Disposal		
Carrying value of the liability component of Intralot 2013 Convertible Bonds	213,613	
Less: Aggregate fair value of Gain Advance and 49% equity interest of Precious Success	(153,166)	
Gain on repurchase of the Intralot 2013 Convertible Bonds	60,447	
Fair value of Gain Advance	148,000	
Less: Carrying value of Gain Advance	(140,701)	
Gain on disposal of Gain Advance	7,299	
Gain on Intralot Disposal recognised in profit or loss *(note b)*		67,746
Gain on group restructuring		226,767

Notes:

(a) For the purpose of determining the gain on the GCH Disposal, the directors of the Company considered that none of the consideration (being the 60% equity interest of Oasis Rich) is allocated to repurchase the conversion option component of the GCH 2012 Convertible Bonds since the GCH 2012 Convertible Bonds were close to maturity and the conversion options were deeply out of the money, and hence the entire consideration paid by the Group for the repurchase of the GCH 2012 Convertible Bonds is allocated to the liability component of the GCH 2012 Convertible Bonds.

(b) For the purpose of determining the gain on the Intralot Disposal, the directors of the Company determined that (i) the fair value of Gain Advance was HK$148,000,000 as at 12 November 2012 with reference to a valuation carried out by Vigers Appraisal & Consulting Limited ("Vigers"), independent qualified professional valuers not connected with the Group, taking into account the future cash flows expected to arise from the available-for-sale investment held by Gain Advance with a suitable discount rate, and (ii) the fair value of 49% equity interest in Precious Success approximated to the carrying value of HK$5,166,000 as at 12 November 2012, taking into account Precious Success has been incurring losses in prior years and its non-current assets mainly consisting of fixture and equipment used for distribution of lottery products which is realisable in an amount approximate to its carrying value, resulting in no material result on the disposal of Precious Success.

As the aggregate fair value of Gain Advance and Precious Success of HK$153,166,000 was lower than the fair value of the liability component of the Intralot 2013 Convertible Bonds amounting to HK$257,433,000 as at 12 November 2012, none of the consideration is allocated to repurchase the conversion option component of the Intralot 2013 Convertible Bonds, and hence the entire consideration paid by the Group for the repurchase of the Intralot 2013 Convertible Bonds was allocated to the liability component of the Intralot 2013 Convertible Bonds.

The assets and liabilities of Gain Advance and Oasis Rich derecognised as at 12 November 2012 were as follows:

	Gain Advance	**Oasis Rich**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	–	1,409	1,409
Available-for-sale investment	140,902	–	140,902
Inventories	–	40,425	40,425
Trade and other receivables	3	1,345	1,348
Amounts due from a fellow subsidiary	–	25,794	25,794
Bank balances and cash	51	4,704	4,755
Trade and other payables	(255)	(36,340)	(36,595)
Amount due to a related company	–	(10,244)	(10,244)
Tax payable	–	(2,348)	(2,348)
	140,701	24,745	165,446
Less: Non-controlling interests	–	(9,898)	(9,898)
Net assets attributable to the Group	140,701	14,847	155,548
Cash outflow arising on disposals			
Bank balances and cash disposed of	(51)	(4,704)	(4,755)

Oasis Rich contributed a loss of HK$4,649,000 and net cash inflow of HK$3,121,000 to the Group's results and cash flows for the period from 1 January 2012 to 12 November 2012, respectively.

The impact of the disposal of Gain Advance on the Group's results and cash flows in 2012 was insignificant.

Subsequent to the GCH Disposal and the Intralot Disposal, the Group is engaged in the business of provision of services and solutions for distribution of lottery products and trading of lottery terminals.

10. TAXATION

	2012	2011
	HK$'000	*HK$'000*
PRC Enterprise Income Tax		
– Current year	**513**	113
– Capital gain tax on disposal of the PRC subsidiaries	**20,858**	–
	21,371	113

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No Hong Kong Profits Tax was provided for 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.

On 12 November 2012, the Group disposed of certain subsidiaries established in the PRC as a result of the GCH Disposal and the Intralot Disposal as detailed in note 9. Pursuant to the relevant tax laws in the PRC, capital gain tax of HK$20,858,000, arising from the disposal of these subsidiaries has been provided, based on 10% of the difference between disposal consideration and the Group's share of registered capital.

The taxation for the year can be reconciled to the profit (loss) before taxation per the consolidated statement of comprehensive income as follows:

	2012	2011
	HK$'000	*HK$'000*
Profit (loss) before taxation	**91,912**	(215,819)
Tax at the domestic income tax at the rate of 25% *(Note)*	**22,978**	(53,955)
Tax effect of income not taxable for tax purposes	**(3,024)**	(9,256)
Tax effect of expenses not deductible for tax purposes	**31,657**	56,823
Tax effect of tax losses not recognised	**4,823**	5,630
Utilisation of tax losses previously not recognised	**(28)**	(243)
Tax effect of different tax rates and bases applied on disposal of the PRC subsidiaries	**(35,680)**	–
Tax effect of share of results of associates	**645**	994
Tax effect of share of results of jointly controlled entities	**–**	120
Taxation for the year	**21,371**	113

Note: The domestic income tax rate in the jurisdiction where the operation of the Group is substantially based is used.

11. PROFIT (LOSS) FOR THE YEAR

Profit (loss) for the year has been arrived at after charging:

	2012	2011
	HK$'000	*HK$'000*
Amortisation of intangible assets	**–**	2,265
Depreciation of property, plant and equipment	**2,967**	4,467
Total depreciation and amortisation	**2,967**	6,732
Directors' emoluments	**3,115**	4,298
Other staff costs:		
Salaries and other benefits	**10,259**	10,280
Retirement benefit scheme contributions	**1,490**	1,535
Share-based payments	**295**	2,739
Total employee benefit expenses	**15,159**	18,852
Auditor's remuneration	**1,325**	1,220
Allowance for inventories (included in purchase of inventories and raw materials consumed)	**5,593**	8,101
Loss on disposal and written off of property, plant and equipment	**515**	462
Operating lease rentals in respect of land and buildings	**3,955**	4,476
Charity donation	**2,467**	2,360
Management fee paid to lottery operator (included in other expenses)	**2,288**	6,205
Transaction costs in relation to group restructuring (included in other expenses)	**4,091**	–
and after crediting:		
Net foreign exchange gain	**7,528**	36,301
Bank interest income	**38**	44
Other interest income	**–**	122

12. DIVIDENDS

No dividend was declared or proposed during 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

13. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2012	2011
	HK$'000	*HK$'000*
Earnings		
Profit (loss) attributable to owners of the Company for the purpose of basic earnings (loss) per share	**78,981**	(209,219)
Effect of dilutive potential ordinary shares:		
Convertible bonds *(note)*	**(120,771)**	–
Loss for the purpose of diluted loss per share	**(41,790)**	(209,219)

Note: The adjustments for the purpose of diluted loss per share due to the assumed conversion of outstanding convertible bonds consist of effective interest expense, exchange gain arising on translation of convertible bonds, gain on group restructuring and capital gain tax on group restructuring.

	2012	2011
	'000	*'000*
		(Restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**857,193**	658,987
Effect of dilutive potential ordinary shares:		
Convertible bonds	**1,003,327**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**1,860,520**	658,987

The weighted average number of ordinary shares for the purpose of basic earnings (loss) per share has been adjusted for the bonus element of the open offer as detailed in note 17.

The computation of diluted loss per share in 2012 did not include the Company's outstanding share options since their assumed exercise would result in a decrease in loss per share.

The computation of diluted loss per share in 2011 did 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.

14. TRADE AND OTHER RECEIVABLES

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**77,499**	84,134
Less: allowance for doubtful debts	**(14,633)**	(1,276)
	62,866	82,858
Other receivables	**17,804**	19,959
Less: allowance for doubtful debts	**(15,012)**	(10,468)
	2,792	9,491
Prepayments and deposits	**1,083**	2,054
	66,741	94,403

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:

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**32,706**	24,752
31 – 90 days	**18,435**	33,515
91 – 180 days	**11,525**	14,927
181 – 365 days	**200**	2,944
Over 365 days	**–**	6,720
	62,866	82,858

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$11,725,000 (2011: HK$24,591,000) which were past due at the end of the reporting period for which the Group has not provided for impairment loss as the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

15. TRADE AND OTHER PAYABLES

	2012	2011
	HK$'000	*HK$'000*
Trade payables *(Note)*	**44,805**	56,241
Other payables	**13,417**	10,575
Accruals	**136**	4,293
	58,358	71,109

Note: Included in trade payables are amounts of nil (2011: HK$45,903,000) due to a subsidiary of a substantial shareholder of the Company. As the Group had disposed of Oasis Rich as detailed in note 9, there was no such amount due to the subsidiary of the substantial shareholder of the Company as at 31 December 2012. The amounts as at 31 December 2011 were unsecured, interest-free and repayable according to credit terms granted by the subsidiary of the substantial shareholder.

The average credit period on purchases of goods is 30 days.

The following is an aged analysis of trade payables based on the invoice date at the end of the reporting period:

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**28,419**	56,241
31 – 90 days	**11,084**	–
91 – 180 days	**–**	–
181 – 365 days	**5,302**	–
	44,805	56,241

As at 31 December 2012, an amount of HK$9,719,000 (2011: HK$5,944,000) included in other payables, was denominated in currency other than the functional currency of the relevant group entity.

16. CONVERTIBLE BONDS

(i) On 13 December 2007, the Company issued convertible bonds with principal amount of HK$606,800,000 (the "2012 Convertible Bonds") as part of the consideration for the acquisition of subsidiaries. The 2012 Convertible Bonds were recognised in these consolidated financial statements at fair value of HK$989,794,000 at the date of completion of the acquisition of subsidiaries in accordance with HKFRS 3 "Business Combinations". The 2012 Convertible Bonds were denominated were Hong Kong dollars and entitle the holders to convert them into ordinary shares of the Company within 5 years from the date of issue of the 2012 convertible bonds at a conversion price of HK$0.85 per share subject to anti-dilutive adjustments in accordance with the agreement. The 2012 convertible bonds bore interest at 0.1% per annum payable semi-annually in arrears. The 2012 Convertible Bonds contained two components, liability and equity elements. The equity element was presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component of the 2012 convertible bonds was 10.06% per annum.

On 12 November 2012, part of the 2012 Convertible Bonds with outstanding principal of HK$175,188,566 had been repurchased upon the completion of the GCH Disposal as detailed in Note 9. In addition, the conversion price of the 2012 Convertible Bonds had been adjusted to HK$0.70 per share upon the completion of the Open Offer of the Company as detailed in Note 17.

On 7 December 2012 and 12 December 2012, part of the 2012 Convertible Bonds with aggregate outstanding principal of HK$191,105,702 had been converted into 273,008,144 ordinary shares of the Company at the conversion price of HK$0.70 per share. All of the remaining 2012 Convertible Bonds with outstanding principal of HK$240,505,732 were due on 13 December 2012 but no redemption had been taken place as required under the terms of the 2012 Convertible Bonds and the conversion right attached to the 2012 Convertible Bonds was lapsed on 13 December 2012. As at 31 December 2012, such amount remained unpaid and was included in amount due to immediate holding company.

(ii) On 9 December 2008, the Company issued the Intralot 2013 Convertible Bonds with principal amount of HK$277,175,310 as part of the consideration for the acquisition of certain intangible assets. The Intralot 2013 Convertible Bonds were denominated in Hong Kong dollars and entitled the holders to convert them into ordinary shares of the Company within 5 years from the date of issue of the Intralot 2013 Convertible Bonds at a conversion price of HK$0.991 per share subject to anti-dilutive adjustments in accordance with the agreement. The Intralot 2013 Convertible Bonds bore interest at 0.1% per annum payable semi-annually in arrears. The Intralot 2013 Convertible Bonds contained two components, liability and equity elements. The equity element was presented in equity heading "convertible bonds equity reserve". The effective interest rate of the liability component of the Intralot 2013 convertible bonds was 26% per annum.

On 12 November 2012, all of the Intralot 2013 convertible bonds had been repurchased upon the completion of the Intralot Disposal as detailed in Note 9.

The 2012 Convertible Bonds and the Intralot 2013 convertible bonds were secured by the shares of certain subsidiaries of the Company.

The movement of the liability component of the convertible bonds for the year is set out below:

	2012	2011
	HK$'000	*HK$'000*
Carrying amount at the beginning of the year	**727,768**	640,354
Interest charged *(note 8)*	**91,972**	88,298
Interest payable/paid	**(865)**	(884)
Repurchase during the year	**(387,481)**	–
Conversion into ordinary shares	**(190,888)**	–
Reclassified to amount due to immediate holding company upon maturity	**(240,506)**	–
Carrying amount at the end of the year	**–**	727,768

	2012	2011
	HK$'000	*HK$'000*
Analysed for reporting purposes as:		
Current	**–**	554,714
Non-current	**–**	173,054
	–	727,768

17. SHARE CAPITAL

	Number of ordinary shares	Amount *HK$'000*
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2011 and 31 December 2011	2,000,000,000	20,000
Increase during the year	3,500,000,000	35,000
At 31 December 2012	5,500,000,000	55,000
Issued and fully paid:		
At 1 January 2011	502,621,933	5,026
Exercise of share options	345,000	4
At 31 December 2011	502,966,933	5,030
Exercise of share options	5,323,093	53
Issue of new shares	1,507,267,099	15,073
Coversion of convertible bonds (note 16)	273,008,144	2,730
At 31 December 2012	2,288,565,269	22,886

On 12 November 2012, the Company issued 1,507,267,099 new ordinary shares as a result of the Open Offer at the price of HK$0.078 per share on the basis of three new shares for every existing share, out of which 128,205,128 shares and 1,145,361,487 shares were taken up by Melco LV and Power Way, respectively pursuant to the Underwriting Agreement as detailed in Note 9. The aggregate subscription price paid by Power Way had been set off against the outstanding principal of HK$80,000,000 and accrued interest of HK$9,338,000 up to 31 May 2012 in relation to the Power Way Loan.

The net proceeds of approximately HK$26,724,000 arising from the Open Offer have been used as additional working capital to strengthen the Company's financial position and to develop its lottery business.

18. EVENT AFTER THE REPORTING PERIOD

On 13 March 2013, the Company entered into an agreement with Melco LV to restructure the amount due to immediate holding company with a principal amount of HK$240,505,732 as a shareholder loan. The amount is restructured to become unsecured, interest bearing at 3% per annum, and subject to Melco LV's overriding right to demand immediate repayment, repayable on 30 September 2013 and such repayment date can be automatically further extended to 30 March 2014 unless Melco LV gives a notice objecting such extension.

CEO'S STATEMENT

TO OUR SHAREHOLDERS

On behalf of the Board of Directors (the "Board") of the Company, I am pleased to present the Company annual report for the year ended 31 December 2012.

The Board's focus in 2012 was on restructuring the Group, improving financial performance and reducing debts. The Group continued on its path of restructuring to ensure that it is in the best possible position to deliver sustainable growth over the coming years. This has been an ongoing process, beginning in 2011 with the amendments of the articles of associations of BTI. and the acquisition of the remaining 20% equity interest of PAL Development, as well as certain disposals of assets effectively completed in November 2012. This included the entire interest of Gain Advance, 49% equity interest of Precious Success, and the entire 60% equity interest in Oasis Rich. as considerations for the repurchase of the convertible bonds with an aggregate principal amount of HK$452.4 million. These transactions were approved with overwhelming support by the majority of shareholder votes in a general meeting and resulted in a substantial reduction in financial liabilities.

During the year, the Company also arranged an open offer on the basis of three offer shares for every existing share, which presented equitable means for the shareholders to participate in the future development of the Group, and it successfully raised HK$117.6 million. The proceeds allowed the Group to repay the loan amounting to HK$89.3 million, with the remaining balance serving as additional working capital for sustaining the Group's business. The success of the open offer demonstrated the confidence that the shareholders have in our management team.

Above all, the Group has continued to focus on its strategic development in the China lottery market and has made steady progress in expanding the scale of its core business. The China lottery industry is entering into a new stage of stable growth that will see it gain a better development space along with the richer, paperless lottery products and penetration of the third-party mobile payment platform. We will also see an update of lottery types, an increase in lottery buying channels, and strong entertainment platforms that enrich lottery cultural content. The local lottery authorities are formulating the framework and policies to open up the market to more interested participants. A rapidly developing industry trend in China is the selling of lottery tickets online. The concentration of our business resources in paperless channel development for the China lottery market has set the stage for us to reposition the Group from a retail lottery operator to an upstream solutions provider. We believe that significant prospects exist in capitalizing on the growing business opportunities in the China lottery industry.

Under our new structure established in 2012, the Company has become a non wholly-owned subsidiary of Melco, a listed company on the Main Board of the Stock Exchange. We possess a highly-skilled and strong management team from Melco and will leverage on our unrivalled expertise in gaming and entertainment as well as our extensive relationship network to execute our versatile growth strategy in the lottery business.

In Appreciation

On behalf of the Board, I would like to express our sincere gratitude to all our stakeholders. I would also like to give our genuine thankfulness to our shareholders for their continued support and confidence. To my fellow board members, management team and employees, I wish to express my heartfelt appreciation for your hard work and dedicated commitment. To our business partners, we are grateful for your trust and confidence in us and look forward to many more years of support.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is engaged in the provision of lottery-related technologies, systems and solutions in China. It is a recognized distributor of high quality, versatile lottery terminals for the China Sports Lottery Administration Centre ("CSLA"), which is the exclusive sports lottery operator in the PRC. The Group has also developed a wide presence across mainland China by managing a network of retail outlets for the distribution of scratch cards and lottery tickets and the provision of tele-betting services for the sale of lottery tickets. As the license holder in the PRC for Intralot S.A.'s world leading lottery technologies, the Group is the multimedia content distribution system provider of the high frequency game "Shi Shi Cai" for the China Welfare Lottery Issuance Centre in the Chongqing municipality.

GROUP RESTRUCTURING

As disclosed in the Company's circular, dated 26 September 2012, the following transactions were concluded during the course of the year:

(i) On 26 June 2012, the Group entered into a sale and purchase agreement (the "GCH Agreement") with GCH, the shareholder of approximately 32.86% of the entire issued share capital of Oasis Rich at that time. Oasis Rich is an investment holding company which, through its wholly-owned subsidiary, Wu Sheng Computer Technology (Shanghai) Co., Ltd. (伍盛計算機科技（上海）有限公司) ("Wu Sheng"), is principally engaged in the manufacturing of lottery terminals for the CSLA. Pursuant to the GCH Agreement, the Group disposed of 60% of the issued capital of Oasis Rich to GCH for a consideration of HK$175,188,566 and repurchased the 0.1% convertible bond from GCH, due on 13 December 2012, in the principal amount of HK$175,188,566 for the same consideration. The considerations payable under the GCH Agreement were set off against each other at completion on 12 November 2012. Upon completion of the GCH Agreement, Oasis Rich ceased to be a non wholly-owned subsidiary of the Company.

(ii) On 26 June 2012, the Group also entered into a sale and purchase agreement (the "Intralot Agreement") with Intralot, a substantial shareholder of the Company at that time. Pursuant to the Intralot Agreement, the Group disposed of the entire issued capital of Gain Advance and 49% of the issued capital of Precious Success to Intralot for a consideration of HK$277,175,310, and repurchased the 0.1% convertible bond from Intralot, due on 9 December 2013, in the principal amount of HK$277,175,310 for the same consideration. The considerations payable under the Intralot Agreement were set off against each other at completion on 12 November 2012.

Upon completion of the Intralot Agreement, Gain Advance ceased to be a wholly owned subsidiary of the Company. Through its 100% equity interest in KTeMS Co., Ltd., a company incorporated in South Korea, Gain Advance indirectly holds a 14% equity interest in Nanum Lotto Inc., a company incorporated in South Korea. Nanum Lotto Inc. operates the national online lottery game in South Korea under an exclusive lottery licence granted by the Lottery Commission of the Ministry of Strategy and Finance of South Korea.

Precious Success had become an indirect, 51% owned subsidiary of the Company upon completion of the Intralot Agreement. Precious Success is an investment holding company, whose subsidiaries are principally engaged in the provision of management services for the distribution of lottery products in the PRC.

(iii) On 13 August 2012, the Group entered into an unconditional exclusivity undertaking with Wu Sheng for a term of one year, effective from the day of signing, in order to secure the supply of the lottery terminals from Wu Sheng after completion of the GCH Agreement.

(iv) On 13 August 2012, the Group also entered into a conditional exclusivity undertaking with Beijing Intradak System Technology Co., Ltd. (北京英特達系統技術有限公司) ("Intradak") for a term of one year, effective from 16 October 2012, after the extraordinary general meeting to approve such an undertaking in order to secure the procurement of lottery terminals made by Intradak after completion of the GCH Agreement. Intradak is a related company of the Group in which a director of BTI, a non wholly-owned subsidiary of the Company, has a beneficial interest.

(v) In order to repay the loan from Power Way, which is owned by substantial shareholders of the Company, of approximately HK$89,338,196 being the aggregate of the principal amount of HK$80 million and the interest accrued thereon as at 31 May 2012 (the "Power Way Loan"), and provide additional working capital to strengthen the Company's financial position, the Company proposed an open offer (the "Open Offer") of not more than 1,729,046,799 new ordinary shares of the Company (the "Shares") to the existing shareholders of the Company on 19 October 2012 in the ratio of three offer Shares for every existing Share held by the shareholders. The Open Offer was priced at HK$0.078 per Share and underwritten by Melco LV, being a wholly-owned subsidiary of Melco and Power Way, up to 128,205,128 Shares and 1,145,361,487 Shares, respectively. Upon completion at 12 November 2012, the Open Offer issued, in aggregate, 1,507,267,099 Shares and successfully raised HK$117.6 million to fully settle the Power Way Loan.

(vi) The Board had proposed to increase the authorized share capital of the Company from HK$20,000,000 to HK$55,000,000 through the creation of an additional 3,500,000,000 unissued Shares, which will rank *pari passu* in all respects, with the existing issued Shares primarily for the issuance of the Open Offer.

All of the resolutions approving the above transactions were duly passed at the extraordinary general meeting of the Company held on 15 October 2012. The prospectus and the results of the Open Offer were published on 24 October 2012 and 13 November 2012 respectively.

CONVERSION OF THE CONVERTIBLE BONDS

On 7 December 2012, the bondholders Melco LV, Intralot and Firich Enterprises Co. Ltd. exercised their rights to convert the outstanding 2012 Convertible Bonds, in the principal amounts of HK$119,000,000, HK$14,428,451 and HK$17,677,251 (in aggregate HK$151,105,702) into 170,000,000 Shares, 20,612,072 Shares and 25,253,215 Shares (in aggregate 215,865,287 Shares) respectively, at the adjusted conversion price of HK$0.70 per Share. On 12 December 2012, Melco LV further exercised its rights to convert the 2012 Convertible Bonds in the principal amount of HK$40,000,000 into 57,142,857 Shares at the adjusted conversion price of HK$0.70 per Share.

DISTRIBUTION-IN-SPECIE OF THE SHARES HELD BY POWER WAY AND DISPOSAL OF THE SHARES HELD BY GCH

On 12 December 2012, Power Way carried out a distribution-in-specie of all the Shares it held to its shareholders, namely Melco LV and GCH in proportion to their respective shareholdings of 67.03% and 32.97% in Power Way. Accordingly, Power Way transferred 767,735,805 Shares to Melco LV on 12 December 2012, while 214,000,000 Shares out of the 377,625,682 Shares, being part of GCH's entitlement, were directly transferred to two third-parties at the direction of GCH on the same date. The remaining 163,625,682 Shares were transferred by Power Way to GCH on the same date. Immediately after the distribution at 12 December 2012, the shareholdings of Melco LV in the Company increased from 16.03% to 51.76% and the Company has become a non wholly-owned subsidiary of Melco.

MATURITY OF THE CONVERTIBLE BONDS

The maturity date of the 2012 Convertible Bonds was 13 December 2012. Given that the Company does not have sufficient immediate funds, no redemption of the outstanding 2012 Convertible Bonds in the principal amount of HK$240,505,732 solely held by Melco LV has taken place, as required under the terms of the 2012 Convertible Bonds.

On 13 March 2013, the Company entered into an agreement with Melco LV to restructure the amount due to immediate holding company with a principal amount of HK$240,505,732 as a shareholder loan. The amount is restructured to become unsecured, interest bearing at 3% per annum and, subject to Melco LV's overriding right to demand immediate repayment, repayable on 30 September 2013 and such repayment date can be automatically further extended to 30 March 2014 unless Melco LV gives a notice objecting such extension.

FINANCIAL REVIEW

The Group continues to be engaged in a single operating segment which is the lottery business. During the year, total revenue of the Group amounted to HK86.9 million (2011: HK$96.6 million), decreased by 10% and comprised:

(1) Sales of lottery terminals

Revenues generated from the sales of lottery terminals for the CSLA amounted to HK$82.6 million for the year 2012 (2011: HK$83.4 million), representing a decrease of 1%. Since the CSLA has not concluded the exercise to evaluate and approve the lottery terminals for the new procurement, the Group continued to adopt a low-pricing strategy in order to maintain the market share.

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

Revenue derived from provision of management services for the distribution of lottery products in 2012 amounted to HK$4.3 million, which was lower compared to HK$13.2 million in 2011. It mainly resulted from the closure of some underperforming retail outlets, which formed part of the cost-cutting measures implemented by the Group.

Operating results

The Group experienced a significant earnings turnaround in 2012 due to group restructuring and reported a profit after taxation for the year of HK$70.5 million compared to a loss of HK$215.9 million for the year 2011. Gain on group restructuring arising from the GCH Agreement and the Intralot Agreement was HK$226.8 million, which offset expenses mainly comprised of the following non-cash items:

(i) imputed interest on convertible bonds amounting to HK$92 million (2011: HK$88.3 million) due to the liability component of the convertible bonds carried at amortized costs by using the effective interest method; and

(ii) one-off impairment losses of HK$22.2 million (2011: HK$118.5 million).

The Group also incurred a non-cash, net foreign exchange gain of HK$7.5 million (2011: HK$36.3 million), mainly arising from the translation of convertible bonds.

The Group has rationalized the retail operations in the PRC and imposed tight cost control measures on expenses during the year. Employee benefits costs were further reduced to HK$15.2 million, or a decrease of 19.6% compared to HK$18.9 million in 2011.

The Group also shared losses of associates amounting to HK$2.6 million (2011: HK$4 million), which engaged in the development of paperless lottery sale channels.

Pursuant to the relevant tax laws in the PRC, capital gain tax of HK$20.9 million arising from the disposal of subsidiaries under the GCH Agreement and the Intralot Agreement has been provided, based on 10% of the difference between disposal consideration and the Group's share of registered capital.

LIQUIDITY AND FINANCIAL RESOURCES

We are mindful of the significant deterioration in economic and credit conditions that affected the world economies in previous years. 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 2012, bank balances and cash, denominated principally in Hong Kong dollars and Renminbi, amounted to HK$29.1 million (2011: HK$26.7 million), which reflected the receipt of proceeds from the Open Offer.

CAPITAL STRUCTURE

As at 31 December 2012, net current liabilities of the Group were reduced to HK$227.2 million (2011: HK$571.3 million). The year-on-year improvement was mainly due to repurchases of the convertible bonds with the total carrying amount of HK$387.5 million under the GCH Agreement and the Intralot Agreement. During the year, the bondholders partially converted the 2012 Convertible Bonds with the principal amounts of HK$191.1 million and the Company issued, in aggregate, 273,008,144 Shares to them. We further strengthened our balance sheet with the Open Offer, which issued 1,507,267,099 Shares at a price of HK$0.078 per Share and raised HK$117.6 million mainly for the settlement of the Power Way Loan. These had the effect of reducing our deficiency of equity attributable to shareholders of the Company to HK$232.9 million by the year end (2011: deficiency of HK$615.4 million).

As at 31 December 2012, the Group did not maintain any bank borrowings (2011: Nil) or convertible bonds (2011: HK$727.8 million). The Group generally financed its operations and serviced its debts with internal resources and amount due to immediate holding company, Melco LV. Subsequent to the end of the reporting period, the Company entered into a loan agreement with Melco LV in relation to restructure the amount due to immediate holding company of HK$240.5 million to become unsecured, interest bearing at 3% per annum and, subject to Melco LV's overriding right to demand immediate repayment, repayable on 30 September 2013 and such repayment date can be automatically further extended to 30 March 2014, unless Melco LV gives a notice objecting such extension overriding right to demand immediate repayment.

OUTLOOK

Data from the China Ministry of Finance (the "MOF") shows that the total sales volume of the China lottery industry in 2012 was as high as RMB261.5 billion with a year-on-year growth rate of 18%. Pursuant to the regulations on lottery management issued by the MOF in March 2012, all internet lottery sales by unlicensed organizations are designated as illegal and consequently, several websites selling lottery tickets have suspended operations in the PRC. New regulations have been issued in January 2013, which further substantiated and clarified the relevant policies for execution. The implementation of standardized formal approval and operating requirements should aid in the planned development of the industry as a whole and paperless channels in particular. This presents an opportunity to the Group as the environment is now more supportive of participants determined to comply with government policies and frameworks. The overall China lottery market continues to grow and paperless distribution channels are predicted to be a key growth engine given their ability to effectively penetrate wide geographic areas and reach untapped market segments. Being the PRC license holder for Intralot S.A.'s world leading lottery technologies, the Company will leverage its access to advanced lottery industry expertise and global best practices to capitalize on the opportunities.

Upon completion of the group restructuring in 2012, the Group now consists of, among others, (i) 51% equity interest in BTI, which engaged in the distribution of lottery terminals to more than 20 provinces in the PRC for the CSLA; and (ii) 51% equity interest in Precious Success, which engaged in the provision of management services for the distribution of lottery products in the PRC, including the management of a wide range of retail outlets across mainland China, distribution of scratch cards in Tianjin, being system provider of a high-frequency lottery game system in Chongqing and the operation of a tele-betting system for sale of paperless lottery tickets in Shandong. Although the exercise to evaluate and approve lottery terminals for the new procurement has not been concluded by the CSLA, the Group has already strengthened its position in the terminal distribution business through the added participation of BTI. Further efforts are ongoing to enhance the operating structure and strengthen the financial position of the Group. Subsequent to these strategic changes and following our track record in the lottery industry, the Group continues to build sustainable development through a variety of distribution channels. The Company remains committed to enhancing value for our business partners and to creating long term shareholder value.

CHARGES ON GROUP ASSETS

The convertible bonds of the Company were secured by the shares of certain subsidiaries of the Company until the completion of the Open Offer on 12 November 2012, when all relevant charges were released. The Group had no charges on its assets as at 31 December 2012.

FOREIGN EXCHANGE EXPOSURE

As at 31 December 2012, all assets and liabilities of the Group were denominated in Hong Kong dollars and Renminbi. During the year ended 31 December 2012, 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.

STAFF AND REMUNERATION POLICY

As at 31 December 2012, the Group had a total of 79 full-time employees (2011: 83). For the year ended 31 December 2012, the Directors received emoluments of approximately HK$3.1 million (2011: HK$4.3 million) and other staff costs of the Group were approximately HK$12 million (2011: HK$14.6 million). The Group continues to provide remuneration packages to employees that are in line with market practices and past performance. The Group also provides employees with other benefits such as a mandatory provident fund, medical insurance scheme, share option schemes and staff training programs.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

At 31 December 2012, the Group had no significant capital commitments contracted but not provided for in the consolidated financial statements and it also did not have any significant contingent liabilities.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company reviewed the 2012 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 2012.

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 2012, and of its profit 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 as of 31 December 2012, the Group's current liabilities exceeded its current assets by approximately HK$227,239,000. This condition, along with other matters as set forth in note 2 to the consolidated financial statements, indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance and has adopted the code provisions set out in the Code on Corporate Governance Practices, which was revised and renamed as the Corporate Governance Code on 1 April 2012, contained in Appendix 15 of the GEM Listing Rules. The Board is conscientious of the need for accountability, transparency, fairness and integrity of the operations of the Company for the benefit of its shareholders and the investing public.

During the financial year of 2012, the Company has complied with all the Code Provisions of the Former Code for the period of 1 January 2012 to 31 March 2012 and of the CG Code for the period of 1 April 2012 to 31 December 2012, save for the following:

(i) Due to overseas engagements, two Non-executive Directors and an Independent Non-executive Director were unable to attend the 2012 annual general meeting of the Company (the "2012 AGM") held on 18 May 2012; two Non-executive Directors and two Independent Non-executive Directors were unable to attend the extraordinary general meeting of the Company held on 27 June 2012, and two Non-executive Directors were unable to attend the extraordinary general meeting of the Company held on 15 October 2012; and

(ii) The Chairman of the Board was unable to attend the 2012 AGM due to an overseas engagement. However, an Executive Director of the Company took the chair of that meeting in accordance with the Company's articles of association.

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 2012 Annual Report will be available on both websites and despatched to shareholders of the Company on or about Thursday, 28 March 2013.

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

Hong Kong, 22 March 2013

As at the date of this announcement, the Board consists of one Executive Director, namely Mr. Ko Chun Fung, Henry, 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.