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MelcoLot Limited

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 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 collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to MelcoLot Limited. The directors of MelcoLot Limited, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of MelcoLot Limited (the “**Company**”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2012 (the “**Review Period**”) as follows:

Business Review

The Group is principally engaged in the provision of lottery-related technologies, systems and solutions in the People’s Republic of China (the “**PRC**”). It is a recognized manufacturer and distributor of high quality, versatile lottery terminals for China Sports Lottery Administration Centre (the “**CSLA**”). The Group has developed a wide retail presence across several provinces by managing a network of retail outlets for the sale of lottery tickets, including the increasingly popular skill games (similar to fixed odds betting). In addition to being the PRC licence holder for Intralot S.A. Integrated Lottery Systems and Services’ world leading lottery technologies currently working for China Welfare Lottery Issuance Centre on the upgrade project of a high-frequency lottery game in Chongqing 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.

During the Review Period, total revenue of the Group amounted to HK\$19.9 million (2011: HK\$33.1 million), representing a decrease of 40% compared to the same period in 2011. The decrease was mainly due to the reduced revenue from the sales of lottery terminals by 35%, amounting to HK\$16.7 million (2011: HK\$25.6 million). The Group adopted a short-term, low pricing strategy in order to maintain market share as the new equipment procurement cycle of CSLA had not yet been finalized. The revenue from the provision of management services for distribution of lottery products reduced by 57%, amounting to HK\$3.2 million (2011: HK\$7.4 million), due to the decrease in number of retail outlets in PRC during the Review Period.

Loss for the period amounted to HK\$87.4 million for the Review Period (2011: HK\$71.8 million), after charging non-cash expenses which include:

- (i) imputed interest on convertible bonds of HK\$49.4 million (2011: HK\$42.1 million) due to the liability component of the convertible bonds carried at amortized cost by using the effective interest method; and
- (ii) depreciation and amortization expenses of property, plant and equipment and intangible assets of HK\$1.9 million (2011: HK\$3.1 million).

Suspension of Trading

As announced on 27 June and 23 July 2012, trading in the shares of the Company on the GEM has been suspended with effect from 9:00 a.m. on Wednesday, 27 June 2012 pending the release of an announcement in relation to, among other things, very substantial disposals and connected transactions (the “**Disposals**”) and a proposed open offer (the “**Open Offer**”) with implication of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”), which are price sensitive in nature. The Company had entered into the relevant agreements in respect of the Disposals on 26 June 2012, which involve disposals of certain assets of the Company to certain shareholders of the Company and repurchases of certain convertible bonds issued by the Company (the “**CB Repurchases**”). The Disposals are not extended to other shareholders of the Company and therefore constitute special deals for the Company under Rule 25 of the Takeovers Code. The CB Repurchases will constitute an off-market share repurchase under the Code on the Share Repurchases (the “**Repurchase Code**”) and must be approved by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director (the “**Executive**”) pursuant to Rule 2 of the Repurchase Code.

Based on the proposed terms of the underwriting agreement in relation to the Open Offer, which is not yet concluded as at the date of this announcement, the taking up of offer shares and underwritten shares by the underwriters in the Open Offer will increase the shareholding of the underwriters in the shareholding of the Company, which may give rise to a mandatory offer obligation under Rule 26 of the Takeovers Code for the underwriters and parties acting in concert with any of them to make a mandatory general offer under Rule 26 of the Takeovers Code for all the shares and other securities issued by the Company not already held or agreed to be acquired by the underwriters and parties acting in concert with any of them unless a whitewash waiver (the “**Whitewash Waiver**”) is obtained. The Open Offer is expected to be subject to conditions precedent including the granting of the Whitewash Waiver, which is not capable of being waived. If the Whitewash Waiver is not granted by the Executive or approved by the independent shareholders of the Company, the Open Offer will not proceed.

Completions of the Disposals, the CB Repurchases and the Open Offer are conditional on each other.

An announcement relating to the Disposals together with the Open Offer will be published by the Company as soon as practicable.

Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil). No dividends were paid during the Review Period.

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 30 June 2012, bank balances and cash, denominated principally in Hong Kong dollars and Renminbi, amounted to HK\$13.2 million (31 December 2011: HK\$26.7 million). The Group does not maintain any bank borrowings and generally financed its operations and serviced its debts with internal resources, which 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 non-current liability of the Group, is repayable on 14 July 2013 and bears interest at 1% per annum. It is payable to a related company beneficially owned by two substantial shareholders of the Company.

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 Development Limited, Intralot S.A. Integrated Lottery Systems and Services, Global Crossing Holdings Ltd. and Firich Enterprises Co., Ltd., 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 30 June 2012, the total carrying value of the liability component of the convertible bonds on the balance sheet of the Company amounted to HK\$777.2 million (31 December 2011: HK\$727.8 million), which consisted of HK\$581.8 million and HK\$195.4 million 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 accrued using the effective interest method.

As at 30 June 2012, net current liabilities of the Group amounted to HK\$542.1 million (31 December 2011: HK\$571.3 million). The debt ratio, being total debt divided by total assets, was 3.4 as at 30 June 2012 (31 December 2011: 3.0). The Group had a capital deficiency attributable to the owners of the Company amounting to HK\$688.4 million (31 December 2011: HK\$615.4 million) mainly due to the liability component of the convertible bonds and the loan from a related company.

At 30 June 2012, the Group had no capital commitments (31 December 2011: Nil), contracted but not provided for, in the consolidated financial statements.

In the opinion of the Directors, the Company had no reserves available for distribution as at 30 June 2012 (31 December 2011: Nil).

Charges on Group Assets

The convertible bonds of the Company are secured by the shares of certain subsidiaries of the Company as at 30 June 2012.

Foreign Exchange Exposure

As at 30 June 2012, all assets and liabilities of the Group were denominated in United States dollars, Hong Kong dollars, Renminbi and Korean Won. During the Review Period, 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.

Employee Information

As at 30 June 2012, the Group comprised a total of 99 full-time employees (31 December 2011: 83). 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 schemes, share option schemes and staff training programs.

Contingent Liabilities

The Group did not have any significant contingent liabilities at 30 June 2012.

Outlook

Pursuant to regulations on lottery management recently issued by China's Ministry of Finance and Ministry of Civil Affairs, all lottery sales by unlicensed organisations are designated as illegal and consequently several websites selling Welfare Lottery and Sports Lottery tickets have suspended operations in the PRC. The implementation of standardised formal approval and operating requirements should aid 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 envisaged to be a key growth engine given their ability to effectively penetrate wide geographic areas and reach untapped market segments. The Company will seek to leverage its access to advanced lottery industry knowhow and global best practices to capitalize on these opportunities.

Although the exercise to evaluate and approve lottery terminals for the new procurement has not been concluded by CSLA, the Group has already strengthened its position in the terminal distribution business through the added participation in Beijing Telenet Information Technology Ltd., an indirect non wholly-owned subsidiary of the Company. Further efforts are ongoing to enhance the operating structure and strengthen the financial position of the Group. Subsequent to these strategic changes the Company will be better positioned to exploit opportunities in the dynamic China lottery market, with a particular focus on paperless channels.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Three months ended 30 June		Six months ended 30 June	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue	3	9,927	19,083	19,918	33,093
Changes in inventories of finished goods and work-in-progress		6,177	(9,905)	7,544	(9,566)
Purchases of inventories and raw materials consumed		(18,325)	(7,307)	(28,802)	(18,375)
Other income and gains		159	170	317	448
Employee benefits costs		(4,404)	(4,833)	(8,882)	(10,685)
Depreciation and amortization		(655)	(1,541)	(1,701)	(3,092)
Share of results of associates		(715)	(1,498)	(1,447)	(2,402)
Share of results of jointly controlled entities		–	104	–	(215)
Other expenses		(17,437)	(11,105)	(24,219)	(18,545)
Finance costs	5	(25,549)	(21,686)	(50,066)	(42,505)
Loss before taxation		(50,822)	(38,518)	(87,338)	(71,844)
Taxation	6	(37)	225	(37)	–
Loss for the period	8	(50,859)	(38,293)	(87,375)	(71,844)
Other comprehensive income (expense)					
Exchange differences arising on translation		6,932	1,384	8,667	3,460
Total comprehensive expense for the period		(43,927)	(36,909)	(78,708)	(68,384)
Loss for the period attributable to:					
Owners of the Company		(47,071)	(34,819)	(82,235)	(67,026)
Non-controlling interests		(3,788)	(3,474)	(5,140)	(4,818)
		(50,859)	(38,293)	(87,375)	(71,844)
Total comprehensive expense attributable to:					
Owners of the Company		(39,971)	(33,435)	(73,394)	(63,566)
Non-controlling interests		(3,956)	(3,474)	(5,314)	(4,818)
		(43,927)	(36,909)	(78,708)	(68,384)
Loss per share	9				
– Basic and diluted		(HK9.36 cents)	(HK6.92 cents)	(HK16.35 cents)	(HK13.32 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

		As at 30 June 2012 (Unaudited) HK\$'000	As at 31 December 2011 (Audited) HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment	10	8,460	12,901
Interests in associates		1,442	2,888
Available-for-sale investment		138,802	138,102
		<u>148,704</u>	<u>153,891</u>
Current assets			
Inventories		40,855	29,551
Trade and other receivables	11	78,851	94,403
Bank balances and cash		13,150	26,676
		<u>132,856</u>	<u>150,630</u>
Current liabilities			
Trade and other payables	12	80,339	71,109
Amounts due to related companies		11,738	11,340
Amount due to an associate		490	3,074
Tax payable		557	1,735
Loan from a related company	13	–	80,000
Convertible bonds	14	581,791	554,714
		<u>674,915</u>	<u>721,972</u>
Net current liabilities		<u>(542,059)</u>	<u>(571,342)</u>
		<u>(393,355)</u>	<u>(417,451)</u>
Capital and Reserves			
Share capital	15	5,030	5,030
Reserves		(693,390)	(620,435)
Equity attributable to owners of the Company		<u>(688,360)</u>	<u>(615,405)</u>
Non-controlling interests		19,586	24,900
Total capital deficiency		<u>(668,774)</u>	<u>(590,505)</u>
Non current liabilities			
Loan from a related company	13	80,000	–
Convertible bonds	14	195,419	173,054
		<u>275,419</u>	<u>173,054</u>
		<u>(393,355)</u>	<u>(417,451)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company										
	Share capital	Share premium	Share-based payment reserve	PRC statutory reserves	Other reserve	Convertible bonds equity reserve	Exchange reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2011 (audited)	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	–	–	–	–	–	–	3,460	–	3,460	–	3,460
Loss for the period	–	–	–	–	–	–	–	(67,026)	(67,026)	(4,818)	(71,844)
Total comprehensive income (expense) for the period	–	–	–	–	–	–	3,460	(67,026)	(63,566)	(4,818)	(68,384)
Recognition of equity-settled share-based payments	–	–	3,100	–	–	–	–	–	3,100	–	3,100
Issue of ordinary shares upon exercise of share options	4	40	(17)	–	–	–	–	–	27	–	27
As at 30 June 2011 (unaudited)	5,030	368,963	29,584	3,543	–	645,492	44,250	(1,532,435)	(435,573)	5,035	(430,538)
As at 1 January 2012 (audited)	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	–	–	–	–	–	–	8,841	–	8,841	(174)	8,667
Loss for the period	–	–	–	–	–	–	–	(82,235)	(82,235)	(5,140)	(87,375)
Total comprehensive income (expense) for the period	–	–	–	–	–	–	8,841	(82,235)	(73,394)	(5,314)	(78,708)
Recognition of equity-settled share-based payments	–	–	439	–	–	–	–	–	439	–	439
As at 30 June 2012 (unaudited)	5,030	368,963	31,222	3,543	(4,922)	645,492	15,711	(1,753,399)	(688,360)	19,586	(668,774)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Net cash used in operating activities	(10,326)	(10,724)
Investing activities		
Deferred proceeds from disposal of subsidiaries	–	10,503
Interest received	17	26
Purchase of property, plant and equipment	–	(7,286)
Investment in an associate	(2,584)	(3,065)
Advance to an associate	–	(1,434)
Net cash used in investing activities	(2,567)	(1,256)
Financing activities		
Interest paid	–	(443)
Proceeds from exercise of share options	–	27
Net cash used in financing activities	–	(416)
Net decrease in cash and cash equivalents	(12,893)	(12,396)
Cash and cash equivalents at beginning of the period	26,676	43,978
Effect of foreign exchange rate changes	(633)	(40)
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>13,150</u>	<u>31,542</u>

NOTES:

(1) BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules and with Hong Kong Accounting Standard 34, *Interim Financial Reporting*.

The Group incurred a loss of approximately HK\$87,375,000 for the six months ended 30 June 2012 and, as of that date, the Group's current liabilities exceed its current assets and total assets by approximately HK\$542,059,000 and HK\$393,355,000, respectively. To deal with these financing and liquidity issues, the Company intends to carry out a group reorganization as disclosed in the holding announcement dated 23 July 2012.

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 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 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 capitalizing of the loan from a related company beneficially owned by certain substantial shareholders to equity; and
- the possibility of new business opportunities.

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

(2) SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention. The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2011, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards, amendments and interpretations ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current period and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretations will have no material impact on the unaudited consolidated financial statements.

(3) REVENUE

An analysis of the Group's revenue for the three months and the six months ended 30 June 2012 is as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision of services and solutions for distribution of lottery products	1,171	3,829	3,242	7,447
Manufacturing and sales of lottery terminals	8,756	15,254	16,676	25,646
	9,927	19,083	19,918	33,093

(4) 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 lottery business as a whole and review the consolidated financial information of the Group and 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 3.

(5) FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on:				
Effective interest expenses				
on convertible bonds	25,123	21,486	49,441	42,108
Loan from a related company wholly				
repayable within five years	200	200	399	397
	25,323	21,686	49,840	42,505

(6) TAXATION

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Enterprise Income Tax of the PRC				
– current period	37	(225)	37	–
Tax charge/(credit)	37	(225)	37	–

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the six months ended 30 June 2012 and its corresponding period in 2011.

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

(7) DIVIDEND

No interim dividends had been paid or declared by the Company during the six months ended 30 June 2012 (2011: Nil).

(8) LOSS FOR THE PERIOD

	Three months ended 30 June		Six months ended 30 June	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period has been arrived at after charging:				
Amortization of intangible assets	–	663	–	1,327
Depreciation of property, plant and equipment	881	878	1,927	1,765
Total depreciation and amortization	881	1,541	1,927	3,092
Allowance for inventories (included in purchases of inventories and raw materials consumed)	5,262	5,477	5,262	5,477
and after crediting:				
Bank interest income	9	20	17	26
Other interest income	–	–	–	122

(9) LOSS PER SHARE

The calculation of the basic and diluted loss per share for the three months and six months ended 30 June 2012 is based on the loss attributable to owners of the Company of approximately HK\$47,071,000 and HK\$82,235,000 (2011: HK\$34,819,000 and HK\$67,026,000) and on the weighted average number of approximately 502,966,933 (2011: 502,966,933 and 503,193,100) ordinary shares in issue during the periods.

The computation of the 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.

(10) PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group wrote off property, plant and equipment with a carrying amount of HK\$2,740,000 (2011: HK\$524,000).

(11) TRADE AND OTHER RECEIVABLES

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:

	As at 30 June 2012 <i>HK\$'000</i>	As at 31 December 2011 <i>HK\$'000</i>
Trade receivables		
Within 30 days	4,494	24,752
31-90 days	8,365	33,515
91-180 days	9,638	14,927
181-365 days	40,229	2,944
Over 365 days	2,722	6,720
	65,448	82,858
Other receivables	13,403	11,545
	78,851	94,403

Included in the Group's trade receivables were debtors with aggregate carrying amount of HK\$52,589,000 (31 December 2011: HK\$24,591,000) 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. There has not been a significant change in credit quality and the amounts are still considered recoverable. Included in trade receivables as at 31 December 2011 were amounts of HK\$5,617,000 (30 June 2012: Nil) due from a subsidiary of a substantial shareholder of the Company and as at 30 June 2012 were amounts of HK\$58,380,000 (31 December 2011: HK\$70,108,000) due from a related company of a non-controlling shareholder of a group entity. The amounts are unsecured, interest-free and repayable according to credit terms granted.

(12) TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	As at 30 June 2012 <i>HK\$'000</i>	As at 31 December 2011 <i>HK\$'000</i>
Trade payables		
Within 30 days	45,281	56,241
31 – 90 days	12,362	–
181 – 365 days	11,270	–
	68,913	56,241
Other payables	11,426	14,868
	80,339	71,109

Included in trade payables are amounts of HK\$58,761,000 (31 December 2011: HK\$45,903,000) due to a subsidiary of a substantial shareholder of the Company. The amounts are unsecured, interest-free and repayable according to credit terms granted.

(13) LOAN FROM A RELATED COMPANY

The loan from a related company which is beneficially owned by substantial shareholders of the Company, is unsecured, bearing interest at 5% from the drawdown date on 14 July 2008 up to 14 July 2010 and changed to 1% when the maturity date extended from 14 July 2010 up to 14 July 2012, and repayable upon maturity together with all interests accrued. The entire amount of the loan was presented as current liabilities at 31 December 2011. On 24 February 2012, the loan has been further extended one year to 14 July 2013 with other terms remain unchanged, which is therefore presented as non-current liabilities at 30 June 2012.

(14) CONVERTIBLE BONDS

On 13 December 2007, the Company issued convertible bonds (the “**Convertible Bonds I**”) with principal amount of HK\$606,800,000 as part of the consideration for the acquisition of subsidiaries. The Convertible Bonds I are recognized in these condensed 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 Convertible Bonds I are denominated in 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 Convertible Bonds I at a conversion price of HK\$0.85 per share subject to anti-dilutive adjustments in accordance with the agreement. The Convertible Bonds I bear interest at 0.1% per annum payable semi-annually in arrears. If the Convertible Bonds I have not been converted, they will be redeemed on maturity date of 13 December 2012 at par plus accrued interest. The Convertible Bonds I contains two components, liability and equity elements. The equity element is presented in equity heading “convertible bonds equity reserve”. The effective interest rate of the liability component of the Convertible Bonds I is 10.06% per annum.

On 9 December 2008, the Company issued convertible bonds (the “**Convertible Bonds II**”) with principal amount of HK\$277,175,310 as part of the consideration for the acquisition of intangible assets. The Convertible Bonds II are denominated in 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 Convertible Bonds II at a conversion price of HK\$0.991 per share subject to anti-dilutive adjustments in accordance with the agreement. The Convertible Bonds II bear interest at 0.1% per annum payable semi-annually in arrears. If the Convertible Bonds II have not been converted, they will be redeemed on maturity date of 9 December 2013 at par plus accrued interest. The Convertible Bonds II contains two components, liability and equity elements. The equity element is presented in equity heading “convertible bonds equity reserve”. The effective interest rate of the liability component of the Convertible Bonds II is 26% per annum.

The Convertible Bonds I and the Convertible Bonds II are held by substantial shareholders of the Company and secured by the shares of certain subsidiaries of the Company.

(15) SHARE CAPITAL

	Number of shares	Amount
		<i>HK\$'000</i>
Ordinary shares of HK\$0.01 each:		
Authorized:		
At 30 June 2011 and 30 June 2012	2,000,000,000	20,000
Issued and fully paid:		
At 1 January 2011	502,621,933	5,026
Exercise of share options	345,000	4
At 30 June 2011 and 30 June 2012	502,966,933	5,030

(16) OPERATING LEASE COMMITMENTS

As at 30 June 2012, the Group had operating lease commitments of approximately HK\$6,793,000 (31 December 2011: HK\$8,013,000), out of which approximately HK\$3,044,000 were payable within one year (31 December 2011: HK\$3,822,000).

(17) RELATED PARTY TRANSACTIONS

a. During the period, the Group has the following transactions with related parties:

Class of related parties	Nature of transactions	Six months ended 30 June	
		2012	2011
		<i>HK\$'000</i>	<i>HK\$'000</i>
A company in which a non-controlling shareholder of a group company has controlling interest	Sales of lottery terminals	16,358	–
Substantial shareholders of the Company	Purchase of inventories	29,724	20,922
	Sales of lottery terminals	318	13
	Service fee expense	115	430
	Interest expense payable for convertible bonds	443	443
	Purchase of property, plant and equipment	–	6,912
Jointly controlled entity Associate	Sales of lottery terminals	–	25,633
	Consultancy fee	300	300
A company beneficially owned by substantial shareholders of the Company	Interest expense	399	397
A company in which a director of the Company has controlling interest	Interest income	–	122

b. Compensation of key management personnel

The remuneration of Directors and other members of key management during the period is as follows:

	Six months ended 30 June	
	2012	2011
	HK\$'000	HK\$'000
Short-term benefits	3,008	4,339
Post-employment benefits	27	30
Share-based payments	208	1,536
	<u>3,243</u>	<u>5,905</u>

c. The Group's outstanding balances with related parties are set out in the condensed consolidated statement of financial position and in notes 11, 12, 13 and 14.

(18) EVENTS AFTER THE END OF THE REPORTING PERIOD

Trading in the shares of the Company on the GEM has been suspended with effect from 27 June 2012 pending the release of an announcement in relation to a group reorganization, among other things, very substantial disposals and connected transactions (the “**Disposals**”) and a proposed open offer (the “**Open Offer**”). The Company had entered into the relevant agreements in respect of the Disposals on 26 June 2012, which involve disposals of certain assets of the Company to certain shareholders of the Company and repurchases of certain convertible bonds issued by the Company (the “**CB Repurchases**”). Completions of the Disposals, the CB Repurchases and the Open Offer will be conditional on each other. On 23 July 2012, the Company further issued a holding announcement to inform the shareholders of the Company. An announcement relating to the Disposals together with the Open Offer will be published by the Company as soon as practicable.

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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Company has established the audit committee in accordance with the GEM Listing Rules to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee comprises three Independent Non-executive Directors of the Company. The audit committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the six months ended 30 June 2012, none of the Directors or their respective associates had any interest in any business which competes or may compete with the business of the Group.

CORPORATE GOVERNANCE

The Company has complied throughout the six months ended 30 June 2012 with all the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 15 of the GEM Listing Rules as well as the former Code on Corporate Governance Practices, save as disclosed below:

- (i) The CG Code Provision A.6.7 provides that Non-executive Directors and Independent Non-executive Directors should attend general meetings of the Company. Owing 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 held on 18 May 2012 and 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.
- (ii) The CG Code Provision E.1.2 provides that the Chairman of the Board should attend the annual general meeting. The Chairman of the Board was unable to attend the 2012 annual general meeting of the Company held on 18 May 2012 as he had 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.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the code of conduct regarding directors' securities transactions.

BOARD OF DIRECTORS

As at the date of this announcement, the Board consists of two Executive Directors, namely Mr. Ko Chun Fung, Henry and Mr. Chrysafidis, Evangelos, 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.

Mr. Chrysafidis, Evangelos has been appointed as an Executive Director with effect from 23 April 2012 and Mr. Moumouris, Christos has resigned as an Executive Director and a member of the nomination committee of the Board on the same date. At the extraordinary general meeting of the Company held on 27 June 2012, Mr. Chrysafidis was re-elected as an Executive Director by the shareholders of the Company in accordance with the Company's articles of association.

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

Hong Kong, 10 August 2012

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.