



## AGTech Holdings Limited

*(Incorporated in Bermuda with limited liability)*

Stock Code: 8279

First Quarterly Report 08/09

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“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 and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the “Directors”) of AGTech Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Revenue for the Three-Month Period amounted to approximately HK\$15.4 million, representing an increase of approximately 52.1% over the corresponding period in 2007.
- Loss attributable to equity holders of the Company for the Three-Month Period amounted to approximately HK\$37.3 million, primarily due to (i) the share-based payment expense (totalling approximately HK\$19.0 million for the Three-Month Period) as a result of the adoption of Hong Kong Financial Reporting Standard 2 “Share-based Payment” for share options of the Company granted to Directors, employees of the Group and other eligible participants under the share option scheme of the Company; (ii) the amortisation of other intangible assets (amounting to approximately HK\$9.9 million for the Three-Month Period) which arose from the Group’s acquisitions of SYSTEK LTD and SHINING CHINA INC (both being wholly-owned subsidiaries of the Company) during the financial year ended 30 June 2007; and (iii) the increase in cost of sales and services and administrative expenses as a result of the continuous expansion of the Group’s business.
- The Board does not recommend the payment of an interim dividend for the Three-Month Period.

## FIRST QUARTERLY RESULTS

The board of directors (the "Board") of AGTech Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30 September 2008 (the "Three-Month Period"), together with the comparative unaudited figures for the corresponding period in 2007 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Three months ended 30 September	
	Notes	2008 HK\$	2007 HK\$
Revenue	2	<b>15,413,379</b>	10,136,756
Cost of sales and services		<b>(8,320,957)</b>	(2,679,694)
Gross profit		<b>7,092,422</b>	7,457,062
Bank interest income		<b>580,476</b>	2,996,415
Other cost		<b>(2,400)</b>	(559)
Selling and administrative expenses		<b>(17,903,080)</b>	(7,540,230)
(Loss)/Profit from business operations		<b>(10,232,582)</b>	2,912,688
Share-based payment expense		<b>(19,039,350)</b>	(29,169,941)
Net foreign exchange loss		<b>(37,440)</b>	–
Amortisation of other intangible assets		<b>(9,865,849)</b>	(6,500,089)
Loss for the period before taxation		<b>(39,175,221)</b>	(32,757,342)
Taxation	3	<b>2,464,532</b>	503,657
<b>Loss for the period after taxation</b>		<b>(36,710,689)</b>	(32,253,685)
Attributable to:			
Equity holders of the Company		<b>(37,272,638)</b>	(32,192,801)
Minority interests		<b>561,949</b>	(60,884)
		<b>(36,710,689)</b>	(32,253,685)
<b>Loss per share</b>			
Basic and diluted	4	<b>HK1.041 cents</b>	HK0.900 cent

Notes:

## (1) BASIS OF PREPARATION OF THE ACCOUNTS

The unaudited condensed consolidated accounts have been prepared in accordance with the requirements of the GEM Listing Rules, accounting principles generally accepted in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong") which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The condensed consolidated accounts have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate <sup>1</sup>
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation <sup>3</sup>

Notes:

- <sup>1</sup> Effective for annual periods beginning on or after 1 January 2009
- <sup>2</sup> Effective for annual periods beginning on or after 1 July 2009
- <sup>3</sup> Effective for annual periods beginning on or after 1 October 2008

The Directors anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

**(2) REVENUE**

Revenue represents the amounts received and receivable from the provision of sports lottery management and marketing consultancy services, supply of sports lottery sales terminals (and accessories), provision of lottery advisory service, enterprise solutions of digital image processing system and surveillance system, sales of computer software products and related maintenance services to outside customers in the People's Republic of China ("PRC") and the Macao Special Administrative Region of the PRC ("Macao").

**(3) TAXATION**

Taxation for the Three-Month Period represents deferred taxation for the period.

**(4) LOSS PER SHARE**

The calculation of the basic/diluted loss per share for the Three-Month Period is based on the unaudited net loss attributable to equity holders of the Company of HK\$37,272,638 (2007: HK\$32,192,801) and the weighted average number of 3,580,085,000 (2007: 3,578,835,000) shares of the Company in issue during the period.

The computation of the diluted loss per share of the Company does not assume the exercise of the Company's share options as their exercise would decrease the loss per share for both periods.

**(5) DIVIDENDS**

The Board does not recommend the payment of an interim dividend for the Three-Month Period (2007: Nil).

**(6) SHARE CAPITAL AND RESERVES**

	Attributable to equity holders of the Company									
	Share capital	Share premium	Share option reserve	Statutory reserve	Exchange reserve	Contributed surplus	Accumulated losses	Total	Minority interests	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1 July 2008	7,160,170	998,518,599	106,194,072	310,757	90,497,119	58,299,875	(157,469,464)	1,103,511,128	4,122,533	1,107,633,661
Recognitions of equity-settled share-based payments	-	-	19,039,350	-	-	-	-	19,039,350	-	19,039,350
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	(850,995)	-	-	(850,995)	(655,258)	(1,506,253)
Loss for the period	-	-	-	-	-	-	(37,272,638)	(37,272,638)	561,949	(36,710,689)
<b>At 30 September 2008</b>	<b>7,160,170</b>	<b>998,518,599</b>	<b>125,233,422</b>	<b>310,757</b>	<b>89,646,124</b>	<b>58,299,875</b>	<b>(194,742,102)</b>	<b>1,084,426,845</b>	<b>4,029,224</b>	<b>1,088,456,069</b>
At 1 July 2007	7,157,670	998,107,099	43,329,120	292,038	170,032	58,299,875	(52,161,692)	1,055,194,142	5,100,086	1,060,294,228
Recognitions of equity-settled share-based payments	-	-	29,169,941	-	-	-	-	29,169,941	-	29,169,941
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	244,818	-	-	244,818	-	244,818
Loss for the period	-	-	-	-	-	-	(32,192,801)	(32,192,801)	(60,884)	(32,253,685)
<b>At 30 September 2007</b>	<b>7,157,670</b>	<b>998,107,099</b>	<b>72,499,061</b>	<b>292,038</b>	<b>414,850</b>	<b>58,299,875</b>	<b>(84,354,493)</b>	<b>1,052,416,100</b>	<b>5,039,202</b>	<b>1,057,455,302</b>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the Three-Month Period, the Group continued to focus on its sports lottery related business and its major source of revenue came from the provision of sports lottery management and marketing consultancy services to its customers in the PRC which are provincial sports lottery administration centres or authorised sports lottery operators.

The sale of sports lottery instant tickets (“Instants”) was reintroduced into the sports lottery market in the PRC since the second quarter of 2008 with a very enthusiastic response. To capitalise on this form of lottery which is believed to have an enormous growth potential, the Group further strengthened its marketing consultancy business in respect of Instants during the Three-Month Period through entering into the following two marketing consultancy agreements:

- (i) a marketing consultancy agreement with a customer which is authorised by the sports lottery administration centre of Jiangsu province in the PRC to sell Instants through the sales outlets of 蘇果超市有限公司 (Suguo Supermarket Co., Ltd) in Jiangsu.

According to the website of Suguo Supermarket Co., Ltd, up to 2007, Suguo Supermarket Co., Ltd has around 1,758 sales outlets (including supermarkets and convenience stores) in the provinces of Jiangsu, Anhui, Henan, Hebei, Hubei and Shandong. Suguo Supermarket Co., Ltd has over 50% of the market share in Nanjing (the capital city of Jiangsu) and is the largest supermarket chain in Jiangsu province; and

- (ii) a marketing consultancy agreement with a customer which is authorised by the sports lottery administration centre of Gansu province, the PRC to sell Instants in Gansu.

### Business Outlook

As mentioned in our Annual Report 2008, the prospects of the sports lottery sector remain promising in light of the efforts of the Chinese government to thwart illegal gambling and the growth momentum of the PRC sports lottery sector which, in part, is attributable to the popular demand for Instants.

The Group will continue to explore opportunities in different PRC sports lottery arenas including, but not limited to, the provision of sports lottery retail chain management and marketing consultancy services, the introduction of new lottery games and related systems to the sports lottery sector, as well as exploring more strategic business alliances with the aim of consolidating its leadership as a fully integrated solutions provider for the sports lottery market in the PRC.



## Financial Performance Review

For the Three-Month Period, the revenue of the Group amounted to approximately HK\$15.4 million, representing an increase of approximately 52.1% over the corresponding period in 2007. Such increase was primarily attributable to the contributions from the overwhelming response of Instants since its re-introduction into the PRC sports lottery market in the second quarter of 2008, as the income of the Group derived from its sports lottery management and marketing consultancy services in respect of Instants is based on fixed percentages of the actual Instants sales. Over approximately 94.3% of the Group's revenue for the Three-Month Period was derived from the provision of sports lottery management and marketing consultancy services and supply of sports lottery sales terminals (and accessories). For the Three-Month Period, the gross profit percentage stood at approximately 46.0%, whereas the gross profit percentage of the corresponding period in 2007 was approximately 73.6%. The decrease in the gross profit percentage was due to the fact that higher cost of sales and services were incurred by the Group for the Three-Month Period as it expanded its business into more provinces in the PRC and accelerated its penetration into new segment of the PRC sports lottery market, namely, the Instants segment.

The net loss of the Group attributable to equity holders for the Three-Month Period amounted to approximately HK\$37.3 million, whereas the net loss of the Group for the corresponding period in 2007 amounted to approximately HK\$32.2 million. The increase in the net loss of the Group for the Three-Month Period was primarily attributable to (i) the amortisation of other intangible assets (amounting to approximately HK\$9.9 million for the Three-Month Period) which arose from the Group's acquisitions of SYSTEK LTD and SHINING CHINA INC (both being wholly-owned subsidiaries of the Company) during the financial year ended 30 June 2007; and (ii) the increase in cost of sales and services and administrative expenses such as staff costs, leases, travelling expenses and marketing expenses as a result of the continuous expansion of the Group's business.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES OF HK\$0.002 EACH IN THE CAPITAL OF THE COMPANY ("SHARES"), UNDERLYING SHARES AND DEBENTURES

As at 30 September 2008, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange, were as follows:

### a. Interests in ordinary Shares:

Name of Director	Number of Shares			Approximate percentage held
	Personal interest	Corporate interest	Total	
Mr. Sun Ho	27,078,000	2,006,250,000 <i>(Note 1)</i>	2,033,328,000	56.80%
Mr. Bai Jinmin	–	237,580,000 <i>(Note 2)</i>	237,580,000	6.64%
Ms. Yang Yang	400,000	–	400,000	0.01%
Mr. Wang Ronghua	1,975,000	–	1,975,000	0.06%
Mr. Hua Fengmao	1,355,000	–	1,355,000	0.04%
Mr. Kwok Wing Leung Andy	1,515,000	–	1,515,000	0.04%

#### Notes:

- These 2,006,250,000 Shares were held in the name of MAXPROFIT GLOBAL INC. As MAXPROFIT GLOBAL INC is beneficially and wholly-owned by Mr. Sun Ho, an executive Director and chairman of the Company, Mr. Sun was deemed to be interested in such Shares.
- These 237,580,000 Shares were held in the name of Fine Bridge International Limited. Fine Bridge International Limited is beneficially and wholly-owned by HB Resources Investment Limited, which in turn is beneficially and wholly-owned by Mr. Bai Jinmin, an executive Director. Accordingly, HB Resources Investment Limited and Mr. Bai were deemed to be interested in such Shares.

**b. Long position in the underlying Shares in respect of the share options of the Company (which were regarded as unlisted physically settled equity derivatives):**

Name of Director	Date of grant	Exercise price per Share (HK\$)	Exercisable period	Number of underlying Shares entitled (in respect of share options of the Company)			As at 30 September 2008
				As at 1 July 2008	Granted during the Three-Month Period	Exercised during the Three-Month Period	
Mr. Robert Geoffrey Ryan	22-3-2007	1.40	22-3-2008 – 21-3-2012	26,750,000	-	-	26,750,000* (representing approximately 0.75% of the issued share capital of the Company)
Mr. Bai Jinmin	15-6-2007	1.77	15-6-2008 – 14-6-2012	26,750,000	-	-	26,750,000* (representing approximately 0.75% of the issued share capital of the Company)
Mr. Liang Yu	11-7-2008	0.754	11-7-2009 – 10-7-2013	-	26,750,000	-	26,750,000* (representing approximately 0.75% of the issued share capital of the Company)
Ms. Yang Yang	11-7-2008	0.754	11-7-2009 – 10-7-2013	-	2,675,000	-	2,675,000* (representing approximately 0.075% of the issued share capital of the Company)

\* A portion of the option representing 25% of the total underlying Shares entitled under such option shall be vested in the grantee of the option in each of the 4 years during the exercisable period. If the grantee does not exercise such portion of the option within one year after it has been vested in him/her, such portion of the option will lapse.

Save as disclosed above, as at 30 September 2008, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares (in respect of share options of the Company which were regarded as unlisted physically settled equity derivatives) and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 September 2008, so far as was known to the Directors or chief executive of the Company, the following persons (not being Directors or chief executives of the Company) had, or were deemed to have, interests and long positions in the Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital and recorded in the register kept by the Company pursuant to section 336 of the SFO:

### Interests in the Shares:

Name of Shareholder	Capacity	Number of Shares held	Approximate percentage of issued share capital of the Company
MAXPROFIT GLOBAL INC	Beneficial owner (Note 1)	2,006,250,000	56.04%
HB Resources Investment Limited	Interests in controlled corporation (Note 2)	237,580,000	6.64%
Legg Mason Inc	Investment manager	214,212,000	5.98%

#### Notes:

- As disclosed above, Mr. Sun Ho was deemed to be interested in those 2,006,250,000 Shares by virtue of his interest in MAXPROFIT GLOBAL INC.
- As disclosed above, Mr. Bai Jinmin was deemed to be interested in those 237,580,000 Shares by virtue of his interest in HB Resources Investment Limited.

Save as disclosed above, as at 30 September 2008, the Directors or chief executive of the Company were not aware of any other substantial shareholder (not being a Director or chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital and recorded in the register kept by the Company pursuant to section 336 of the SFO.

## INTERESTS OF OTHER PERSONS

As at 30 September 2008, apart from the interests in the Shares, underlying Shares and debentures of the Company and its associated corporations held by the Directors, chief executive and substantial shareholders of the Company stated above, there were no other persons with interests recorded in the register of the Company required to be kept under section 336 of the SFO.

## MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, other than Mr. Sun Ho and Mr. Bai Jinmin as disclosed above, there was no other person during the Three-Month Period who was directly or indirectly interested in 5% or more of the Shares then in issue and who was able, as a practical matter, to direct or influence the management of the Company.

## INTERESTS IN COMPETING BUSINESS

During the period under review, none of the Directors or the controlling shareholder of the Company had an interest in a business, which competes or may compete with the business of the Group.

## AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely, Mr. Kwok Wing Leung Andy, Mr. Wang Ronghua and Mr. Hua Fengmao. The unaudited consolidated first quarterly results of the Group for the Three-Month Period have been reviewed and commented on by the audit committee.

## CORPORATE GOVERNANCE

The Board is committed to maintaining high standards of corporate governance in order to uphold the transparency of the Group and safeguard interests of the shareholders of the Company.

During the period under review, the Company has adopted the code provisions and certain recommended best practices in the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules, except that:

- under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of chairman and chief executive officer of the Company were performed by the same individual, namely, Mr. Sun Ho, during the Three-Month Period. The Company considered that the combination of the roles of chairman and chief executive officer could effectively formulate and implement the strategies of the Company. The Company considered that under the supervision of its Board and its independent non-executive Directors, a balancing mechanism existed so that the interests of shareholders of the Company were adequately and fairly represented. The Company considered that there was no imminent need to change the arrangement; and
- under the code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. During the period under review, the chairman of the Board was not subject to retirement by rotation, as the Board considered that the continuity of the office of the chairman provided the Group with strong and consistent leadership and was of great importance to the smooth operations of the Group.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the Three-Month Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

By order of the Board  
**AGTech Holdings Limited**  
**SUN Ho**  
*Chairman*

Hong Kong, 14 November 2008

*As at the date of this report, the Board comprises (i) Mr. Sun Ho, Mr. Robert Geoffrey Ryan, Mr. Bai Jinmin and Mr. Liang Yu as executive Directors; (ii) Ms. Yang Yang as non-executive Director; and (iii) Mr. Wang Ronghua, Mr. Hua Fengmao and Mr. Kwok Wing Leung Andy as independent non-executive Directors.*