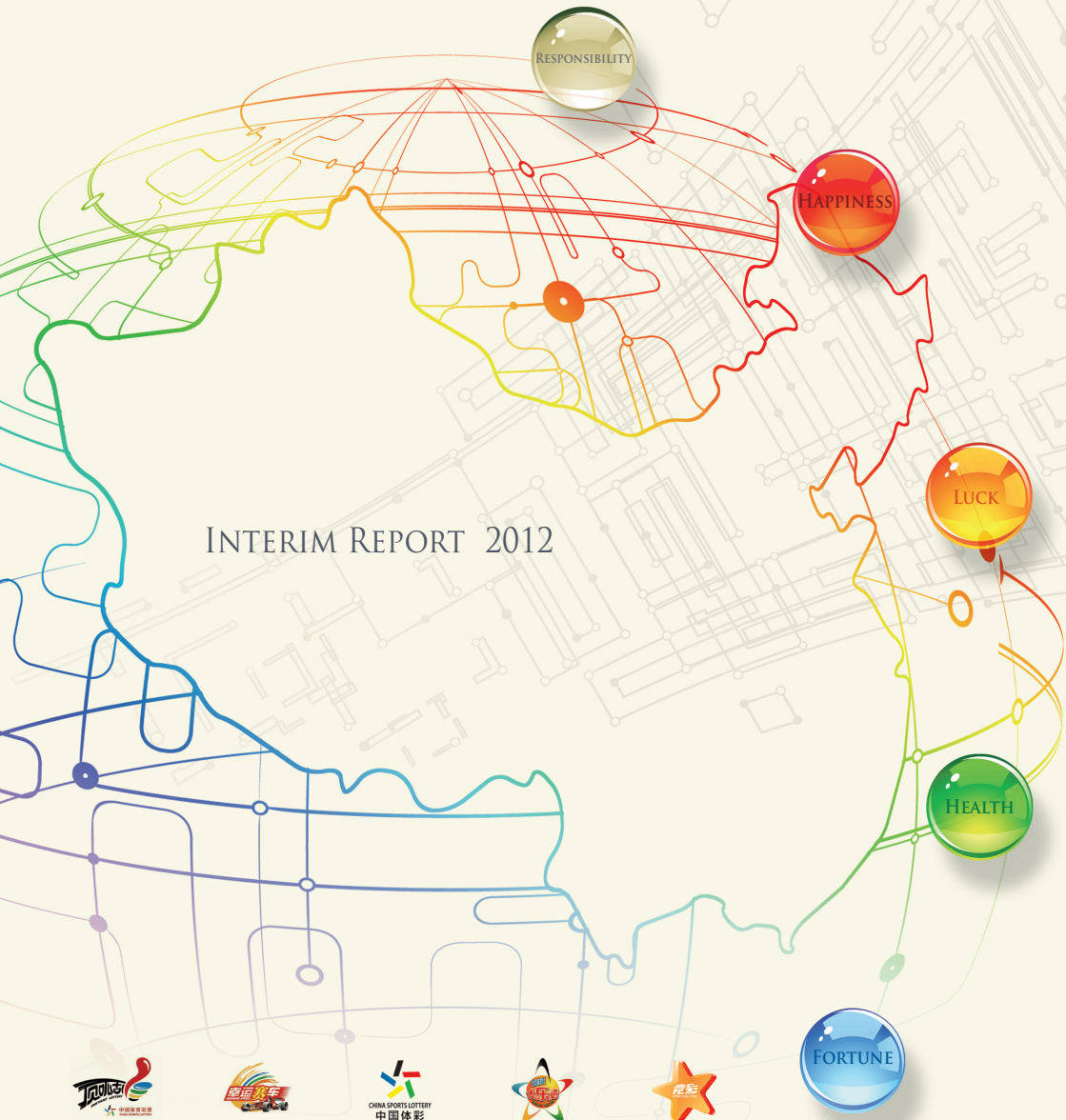




# AGTech Holdings Limited

*(Incorporated in Bermuda with limited liability)*

Stock Code: 8279



## INTERIM REPORT 2012



## **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 the information contained in this report 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 report misleading.*

## HIGHLIGHTS

- Total revenue of the Group for the Six-Month Period amounted to approximately HK\$99.3 million, an increase of approximately HK\$55.7 million or 127.6% from the corresponding period in 2011. The substantial increase of total revenue of the Group was mainly attributable to the new subsidiary GOT upon its complete acquisition by the Group in December 2011. All revenue was derived from provision of sports lottery management and marketing consultancy services and gaming technologies (game software, systems, hardware and terminals) business in the PRC.
- Gross profit of the Group amounted to approximately HK\$47.6 million, an increase of approximately HK\$14.2 million or 42.5% over the corresponding period in 2011. This was mainly attributable to the contribution from the new subsidiary GOT.
- Loss attributable to owners of the Company for the Six-Month Period amounted to approximately HK\$27.2 million, primarily due to (i) the share-based payment expense (totalling approximately HK\$4.6 million for the Six-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, eligible employees and other eligible participants under the Share Option Scheme of the Company; and (ii) the amortisation of other intangible assets (totalling approximately HK\$19.2 million for the Six-Month Period).
- The Board does not recommend the payment of an interim dividend for the Six-Month Period.

## INTERIM 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 June 2012 (the “Three-Month Period”) and the six months ended 30 June 2012 (the “Six-Month Period”), together with the comparative unaudited figures for the corresponding period in 2011 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the Three-Month Period and the Six-Month Period

	Notes	Three months ended 30 June		Six months ended 30 June	
		2012 HK\$	2011 HK\$	2012 HK\$	2011 HK\$
Revenue	2	<b>56,950,675</b>	24,136,320	<b>99,286,667</b>	43,621,640
Cost of sales and services		<b>(34,478,938)</b>	(5,243,786)	<b>(51,648,057)</b>	(10,200,464)
Gross profit		<b>22,471,737</b>	18,892,534	<b>47,638,610</b>	33,421,176
Investment and other income		<b>217,474</b>	250,721	<b>999,176</b>	535,715
Selling and administrative expenses		<b>(26,008,034)</b>	(16,009,709)	<b>(51,281,738)</b>	(32,790,333)
Share of profit/(loss) of an associate		-	240,885	-	(194,578)
(Loss)/profit from business operations		<b>(3,318,823)</b>	3,374,431	<b>(2,643,952)</b>	971,980
Share-based payments		<b>(3,486,851)</b>	(2,631,688)	<b>(4,628,398)</b>	(5,293,443)
Net foreign exchange loss		<b>(134,082)</b>	(35,490)	<b>(134,631)</b>	(21,316)
Amortisation of other intangible assets		<b>(8,702,527)</b>	(10,630,548)	<b>(19,152,363)</b>	(20,983,252)
Finance cost		<b>(519,004)</b>	(700,467)	<b>(2,074,687)</b>	(700,467)
Loss before tax		<b>(16,161,287)</b>	(10,623,762)	<b>(28,634,031)</b>	(26,026,498)
Income tax credit/(expense)	3	<b>1,266,286</b>	(1,084,929)	<b>2,760,412</b>	(393,690)
<b>Loss for the period</b>	4	<b>(14,895,001)</b>	(11,708,691)	<b>(25,873,619)</b>	(26,420,188)
Loss attributable to:					
Owners of the Company		<b>(15,417,531)</b>	(10,372,878)	<b>(27,215,162)</b>	(23,645,590)
Non-controlling interests		<b>522,530</b>	(1,335,813)	<b>1,341,543</b>	(2,774,598)
		<b>(14,895,001)</b>	(11,708,691)	<b>(25,873,619)</b>	(26,420,188)
<b>Loss per share</b>					
Basic and diluted	5	<b>HK 0.401 cent</b>	HK 0.281 cent	<b>HK 0.708 cent</b>	HK 0.641 cent

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	HK\$	HK\$	HK\$	HK\$
Loss for the period	<b>(14,895,001)</b>	(11,708,691)	<b>(25,873,619)</b>	(26,420,188)
<b>Other comprehensive income, net of income tax</b>				
Translation differences on translating foreign operations	<b>(133,107)</b>	17,802,809	<b>4,563,841</b>	21,523,026
<b>Total comprehensive income for the period</b>	<b>(15,028,108)</b>	6,094,118	<b>(21,309,778)</b>	(4,897,162)
Total comprehensive income attributable to:				
Owners of the Company	<b>(15,550,751)</b>	7,386,741	<b>(22,670,150)</b>	(2,164,689)
Non-controlling interests	<b>522,643</b>	(1,292,623)	<b>1,360,372</b>	(2,732,473)
<b>Total comprehensive income for the period</b>	<b>(15,028,108)</b>	6,094,118	<b>(21,309,778)</b>	(4,897,162)

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Notes	Unaudited As at 30 June 2012 HK\$	Audited As at 31 December 2011 HK\$
<b>Non-current assets</b>			
Property, plant and equipment		55,550,105	60,645,058
Goodwill		772,141,826	767,997,278
Other intangible assets		3,366,954	22,413,061
Deposits and prepayments		19,984,586	24,600,112
Other assets		1,746,032	1,736,660
Deferred tax assets		2,916,152	3,138,691
		<b>855,705,655</b>	<b>880,530,860</b>
<b>Current assets</b>			
Inventories		23,975,683	24,226,521
Trade receivables	7	65,790,380	81,015,011
Other receivables, deposits and prepayments		58,758,847	73,393,994
Pledged bank deposit	8	1,381,456	26,612,786
Bank balances and cash		109,444,138	132,378,464
		<b>259,350,504</b>	<b>337,626,776</b>
<b>Current liabilities</b>			
Trade payables	9	10,190,087	14,590,727
Accruals and other payables		17,826,597	25,572,307
Secured bank borrowing	10	–	61,150,000
Current tax liabilities		118,980	4,695,301
		<b>28,135,664</b>	<b>106,008,335</b>
<b>Net current assets</b>		<b>231,214,840</b>	<b>231,618,441</b>
<b>Total assets less current liabilities</b>		<b>1,086,920,495</b>	<b>1,112,149,301</b>
<b>Non-current liabilities</b>			
Provision for warranties		18,229,698	20,707,471
Deferred tax liabilities		4,763,457	10,833,110
		<b>22,993,155</b>	<b>31,540,581</b>
<b>Net assets</b>		<b>1,063,927,340</b>	<b>1,080,608,720</b>
<b>Capital and reserves</b>			
Share capital		7,687,907	7,687,907
Reserves		1,054,277,720	1,072,319,472
<b>Equity attributable to owners of the Company</b>		<b>1,061,965,627</b>	<b>1,080,007,379</b>
Non-controlling interests		1,961,713	601,341
<b>Total equity</b>		<b>1,063,927,340</b>	<b>1,080,608,720</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the Six-Month Period

	Attributable to owners of the Company							Attributable to non-controlling interests		Total HK\$
	Share capital	Share premium	Share options reserve	Statutory reserve	Exchange reserve	Contributed surplus	Accumulated losses	Subtotal		
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
Balance at 1 January 2012	7,687,907	1,174,554,927	132,388,040	5,999,326	158,026,661	47,191,476	(445,840,958)	1,080,007,379	601,341	1,080,608,720
Loss for the period	-	-	-	-	-	-	(27,215,162)	(27,215,162)	1,341,543	(25,873,619)
Other comprehensive income for the period	-	-	-	-	4,545,012	-	-	4,545,012	18,829	4,563,841
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,545,012</b>	<b>-</b>	<b>(27,215,162)</b>	<b>(22,670,150)</b>	<b>1,360,372</b>	<b>(21,309,778)</b>
Recognitions of equity-settled share-based payments	-	-	7,850,272	-	-	-	-	7,850,272	-	7,850,272
Shares issued on exercise of part of share options	-	-	-	-	-	-	-	-	-	-
Lapse of share options	-	-	(5,783,491)	-	-	-	2,561,617	(3,221,874)	-	(3,221,874)
Transfer from accumulated losses	-	-	-	697,743	-	-	(697,743)	-	-	-
<b>Balance at 30 June 2012</b>	<b>7,687,907</b>	<b>1,174,554,927</b>	<b>134,454,821</b>	<b>6,697,069</b>	<b>162,571,673</b>	<b>47,191,476</b>	<b>(471,192,246)</b>	<b>1,061,965,627</b>	<b>1,961,713</b>	<b>1,063,927,340</b>
Balance at 1 January 2011	7,356,321	1,076,602,404	188,193,324	3,134,905	125,681,032	47,191,476	(408,907,047)	1,039,252,415	2,924,638	1,042,177,053
Loss for the period	-	-	-	-	-	-	(23,645,590)	(23,645,590)	(2,774,598)	(26,420,188)
Other comprehensive income for the period	-	-	-	-	21,480,901	-	-	21,480,901	42,125	21,523,026
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,480,901</b>	<b>-</b>	<b>(23,645,590)</b>	<b>(2,164,689)</b>	<b>(2,732,473)</b>	<b>(4,897,162)</b>
Recognitions of equity-settled share-based payments	-	-	5,971,842	-	-	-	-	5,971,842	-	5,971,842
Shares issued on exercise of part of share options	23,968	17,417,433	(14,807,237)	-	-	-	-	2,634,164	-	2,634,164
Lapse of share options	-	-	(678,399)	-	-	-	-	(678,399)	-	(678,399)
Transfer to accumulated losses	-	-	-	(567,672)	-	-	(1,610,222)	(2,177,894)	-	(2,177,894)
<b>Balance at 30 June 2011</b>	<b>7,380,289</b>	<b>1,094,019,837</b>	<b>178,679,530</b>	<b>2,567,233</b>	<b>147,161,933</b>	<b>47,191,476</b>	<b>(434,162,859)</b>	<b>1,042,837,439</b>	<b>192,165</b>	<b>1,043,029,604</b>

## CONDENSED CONSOLIDATED CASHFLOW (UNAUDITED)

For the Six-Month Period

	Six months ended	
	30 June	
	2012	2011
	HK\$	HK\$
Net cash generated by/(used in) operating activities	<b>15,969,368</b>	(3,578,925)
Net cash generated by/(used in) investing activities	<b>24,962,513</b>	(38,940,936)
Net cash (used in)/generated by financing activities	<b>(63,555,261)</b>	62,674,166
Net (decrease)/increase in cash and cash equivalents	<b>(22,623,380)</b>	20,154,305
Cash and cash equivalents at the beginning of the period	<b>132,378,464</b>	140,867,489
Effect of foreign exchange rate changes	<b>(310,946)</b>	2,327,426
Cash and cash equivalents at the end of the period	<b>109,444,138</b>	163,349,220
Analysis of balances of cash and cash equivalents		
Bank balances and cash	<b>109,444,138</b>	163,349,220

Notes:

### (1) BASIS OF PREPARATION OF THE ACCOUNTS

The unaudited condensed consolidated accounts have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange (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 Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The condensed consolidated accounts have not been audited by the Company's auditors, but have been reviewed and commented on by the Company's audit committee. The principal accounting policies and methods of computation used in preparing these results are consistent with those used in preparing the Group's audited financial statements for the year ended 31 December 2011.



The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (the “new and revised HKFRS”).

The Group has not early adopted the new and revised HKFRS that have been issued but are not yet effective, the Group is in the process of assessing the impact of these new and revised HKFRS on the financial performance and financial position of the Group.

## (2) REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from provision of sports lottery management and marketing consultancy services and gaming technologies (game software, systems, hardware and terminals) business in the People’s Republic of China (“China” or the “PRC”) during the Three-Month Period and the Six-Month Period and is analysed as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$	HK\$	HK\$	HK\$
Provision of sports lottery management and marketing consultancy services	<b>22,134,633</b>	24,136,320	<b>45,266,054</b>	43,621,640
Provision of gaming technologies (game software, systems, hardware and terminals)	<b>34,816,042</b>	–	<b>54,020,613</b>	–
	<b>56,950,675</b>	24,136,320	<b>99,286,667</b>	43,621,640

The Group’s revenue and assets were mainly derived from and related to the Lottery business in the PRC while other segments were immaterial. Hence, no geographical segment information is presented.

## (3) INCOME TAX

Income tax for the Six-Month Period represents the net amount of deferred taxation credit of approximately HK\$4.7 million and PRC profits tax of approximately HK\$2.0 million.

#### (4) LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging/(crediting):

	Three months ended		Six months ended	
	30 June		30 June	
	2012	2011	2012	2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$	HK\$	HK\$	HK\$
Cost of inventories recognised				
as expenses	<b>19,378,298</b>	–	<b>29,430,438</b>	–
Provision for warranties	<b>1,908,895</b>	–	<b>3,343,032</b>	–
Share-based payment	<b>3,486,851</b>	2,631,688	<b>4,628,398</b>	5,293,443
Amortisation of other intangible assets	<b>8,702,527</b>	10,630,548	<b>19,152,363</b>	20,983,252
Depreciation of property, plant and equipment	<b>2,242,711</b>	1,558,124	<b>5,251,491</b>	3,235,273
Bank interest income	<b>(334,853)</b>	(250,713)	<b>(1,073,174)</b>	(535,707)
Finance cost	<b>519,004</b>	700,467	<b>2,074,687</b>	700,467
Operating lease rentals in respect of rented premises	<b>2,150,809</b>	1,280,851	<b>4,232,488</b>	2,475,774
Staff cost (including Directors' remunerations)	<b>12,232,844</b>	7,590,792	<b>24,624,622</b>	15,134,857

#### (5) LOSS PER SHARE

The calculation of basic and diluted loss per share for the Three-Month Period and the Six-Month Period is based on the unaudited loss attributable to owners of the Company of HK\$15,417,531 and HK\$27,215,162 respectively (for the three months and six months ended 30 June 2011: net loss of HK\$10,372,878 and HK\$23,645,590 respectively), and the weighted average number of 3,843,953,375 ordinary shares in issue during both the Three-Month Period and the Six-Month Period (for the three months and six months ended 30 June 2011: 3,688,664,621 and 3,686,965,058 ordinary shares in issue respectively).

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

#### (6) DIVIDEND

The Board does not recommend the payment of an interim dividend for the Six-Month Period (2011: Nil).

## (7) TRADE RECEIVABLES

As at 30 June 2012, the aged analysis of the Group's trade receivables is as follows:

	<b>As at 30 June 2012 HK\$</b>	As at 31 December 2011 HK\$
0 to 30 days	<b>60,708,630</b>	63,511,642
31 to 60 days	<b>275,828</b>	2,084,076
61 to 90 days	<b>296,099</b>	5,876,461
91 to 120 days	<b>2,601,017</b>	1,687,740
121 to 365 days	<b>1,698,067</b>	2,677,563
Over 365 days	<b>210,739</b>	5,177,529
	<b>65,790,380</b>	81,015,011

## (8) PLEDGED BANK DEPOSITS

As at 30 June 2012, pledged bank deposit represent letter of guarantee in respect of certain sales contracts with customers. The pledged bank deposit will be released upon the release of the letter of guarantee.

## (9) TRADE PAYABLES

As at 30 June 2012, the aged analysis of the Group's trade payables is as follows:

	<b>As at 30 June 2012 HK\$</b>	As at 31 December 2011 HK\$
0 to 30 days	<b>9,623,689</b>	13,588,021
31 to 60 days	<b>152,378</b>	–
61 to 90 days	<b>5,902</b>	–
91 to 120 days	<b>95,497</b>	–
121 to 365 days	<b>240,099</b>	945,688
Over 365 days	<b>72,522</b>	57,018
	<b>10,190,087</b>	14,590,727

## (10) SECURED BANK BORROWING

As at 30 June 2012, there was no charge on the Group's assets (as at 31 December 2011: HK\$61,150,000). The loan of RMB50.0 million obtained in May 2011 (equivalent to approximately HK\$61.2 million) was repaid in full during the Six-Month Period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### About the Group

The Group is the largest professional services provider in China's sports lottery market in terms of both business scope and geographic coverage, as well as the largest sports lottery terminal and system provider in the PRC. Leveraging on its advanced research and development capabilities and cooperation with top international and domestic lottery and gaming enterprises, the Group is committed to becoming a leading lottery technology group.

The Group is principally engaged in (i) gaming technologies (game software, systems, hardware and terminals); (ii) lottery management; and (iii) online and phone lottery distribution. The Group is committed to applying international best practice and advanced technologies to the lottery industry in various areas such as paper tickets, internet, mobile phone, video, wireless network and streaming media, thereby providing sports lottery authorities and millions of lottery players in China with professional, integrated lottery services.

Over the past six years, the Group has demonstrated a strong track record of delivery, successfully building a uniquely balanced, complementary suite of businesses that now occupy leading positions in the key verticals of the Chinese sports lottery market. This growth is testament to the quality and depth of the Group's relationships with industry regulators and officials at both a national and a provincial level, as well as the quality of its management, employees, technology and partners. Through Asia Gaming Technologies Limited ("AGT"), the Group's joint venture with Ladbroke Group, the Group has developed and successfully launched China's only nationally-approved virtual fixed odds sports betting game, "Lucky Racing".

The Group has a team of over 200 professionals and the footprint of its sports lottery business now covers 80% of the provinces and municipalities across China. The Group is a member of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA).

### Industry Overview

According to information published by the Ministry of Finance of the PRC, in the first half of 2012, the PRC lottery market has continued its rapid growth with lottery sales reaching RMB129.1 billion, an increase of approximately 27.6% against the corresponding period in 2011. Of this, sports lottery amounted to approximately RMB53.9 billion (accounting for 41.8% of total lottery sales), an increase of approximately 27.8% against the corresponding period in 2011, while welfare lottery amounted to approximately RMB75.2 billion (accounting for 58.2% of total lottery sales), an increase of approximately 27.5% against the corresponding period in 2011.

At the beginning of the year, upon the approval of the State Council, principals from the Ministry of Finance, the Ministry of Civil Affairs and the General Administration of Sport of China signed an order to release the “Implementing Rules for the Regulations on the Administration of Lotteries” (the “Rules”), following which the Rules came into force on 1 March 2012. Not only does the release of the Rules suggest the determination of the central government to crack down on illegal lotteries, but it also indicates that the Chinese government may start to deal with the issuance of licenses for online and mobile lottery distribution. The Directors believe that such initiatives will bring significant new business opportunities for the Group to further expand its business via more innovative lottery games and distribution channels in the future.

The robust growth of the PRC sports lottery during the period under review was predominantly driven by an increased prize payout ratio in certain provinces, adoption of new game rules, an increase in points of sales, as well as increased marketing efforts. In aggregate across the sports lottery market as a whole, high frequency games (i.e. lotto games with high frequency draw characteristics) and Jing Cai (竞彩) (i.e. sports betting games involving sports such as football and basketball) were the best performing game types. In light of the government’s initiatives to continue to facilitate lottery industry development, it is expected that China’s lottery sales will continue to enjoy explosive growth and that China will therefore maintain its status as the world’s most rapidly growing lottery market.

## **Business Review**

For the Six-Month Period, the Group achieved significant growth in total revenue and gross profit. In the past year, the Group achieved certain important milestones by launching China’s first national government-approved rapid-draw virtual fixed odds sports betting lottery platform and its first game, “Lucky Racing”, and completed the acquisitions of GOT and Silvercreek. The Group has successfully created a balanced business with leading positions across the main sports lottery verticals in China and brought together international and domestic industry expertise, technologies, management, skills and infrastructure. The integration and optimisation of these businesses is well underway and the Group expects that this foundation will enable sustainable and profitable growth in the future as well as generating attractive returns to shareholders.

## **Gaming Technologies Business**

### *Virtual Fixed Odds Sports Betting*

During the period under review, the virtual sports betting game “Lucky Racing” has exceeded RMB550 million in total sales, an increase of 9.6% quarter on quarter. The game has been rolled out to about 1,700 lottery shops (of which over 1,400 shops are fully operational) in Hunan province.

Sales performance of the game is satisfactory, in-line with and in some instances exceeding the expectations of the Chinese authorities. With enormous interest from players in this form of virtual betting (simulated rapid racing), the Group has been in active discussion with several provinces to seek the opportunity to launch the system and game in more provinces or cities. During the period under review, the game was successfully launched in traditional dedicated sports lottery shops and leisure venues (such as coffee shops and restaurants). It is expected that the game has the potential to expand nationwide in terms of retail betting shops and the other media channels such as mobile, internet and Internet Protocol Television (IPTV) (subject to the necessary approvals).

“Lucky Racing” and the underlying betting transaction system are supplied by AGT, the Group’s majority-owned joint venture with Ladbroke Group (a world leader in betting and gaming markets, based in the United Kingdom). This game is a virtual betting game that is broadcast to lottery shops via a central computer and cable television, allowing customers to bet on computer generated car races (Formula One style) with similar betting options to horse racing such as win, place (first two), first three or accumulator style bets. The approval by the central Chinese regulators for this form of betting is a milestone in China, and the game’s acceptance by lottery players strongly indicates that this new market segment could take significant market share. In addition, with more exciting and entertaining game features, a higher prize return ratio and higher drawing frequency, this game could also grow the overall market by attracting the burgeoning group of middle to high-income players and introduce a new form of social gaming to the PRC lottery public.

Virtual sports fixed odds betting is a rapidly growing and key revenue contributor for gaming operators in the United Kingdom, greater Europe, the United States of America and Australia, and represent a solid model of mature market success to be imported into China’s lottery market.

### *Gaming Hardware and Technology Development*

Upon completion of the acquisition of GOT in December 2011, GOT has become a wholly-owned subsidiary of the Group. This transformed the Group into the largest sports lottery terminal and system provider in the PRC. In addition, it helps to drive the overall vision and long-term strategy for the Group to develop new technologies to meet the increasing demand from the PRC government.

Currently, GOT is the only authorised sports lottery terminal and system provider in the PRC which possesses its own research and development centre. With advanced technologies and innovation capabilities, GOT has successfully developed an extensive sales network in 26 provinces in China and maintained its leading market share of 50% in China. After over 10 years of development, GOT has developed a reputable brand in the PRC's sports lottery and commercial information products fields, and was appraised by the General Administration of Sport of China as an "Outstanding Company Contributing to Sports Lottery". Because of GOT's various competitive advantages, the Directors believe that GOT is very well positioned to introduce new sports lottery projects for the Chinese government in the future.

In addition, during the period under review, the Group's other gaming technology projects and strategic business developments have sustained good momentum. The Group is committed to delivering world-class innovative solutions to satisfy the requirements of the Chinese authorities and entertainment needs of the lottery public, and has continuously devoted efforts and resources on research and development of gaming technologies. During the period under review, the Group has continued its focus on several business development projects such as self-service terminals, portable terminals, as well as other new lottery technologies. The Group's international strategic partners for these projects are amongst the world's foremost operators in their respective fields. Outside of its domestic, Chinese market, the Group believes that GOT has significant potential to develop an international business and this will be an increasing focus of the Group in the future.

### **Lottery Management Business**

The Group's lottery management business is performing in-line with expectations with stable sales and gross profits. Lottery management services primarily comprise: direct and franchise retail shop management, lottery sales through partnerships with major retailers (like supermarkets, convenience stores and so forth) as well as lottery sales, marketing and promotion management.

Through years of remarkable services and proactive participation, the Group has improved its operational efficiency and effectiveness and built up solid delivery infrastructure: talent/skills, management expertise, provincial offices etc. and is well-equipped to execute large multi-disciplinary/diverse projects for the lottery authorities in the PRC. The strength and track record of the lottery management business as a reliable supplier of quality lottery products and services in the PRC's sports lottery market has been and continues to be a key enabler of the Group's strategy.

### ***Online and Phone Lottery Distribution Business***

Following the completion of the acquisition of Silvercreek in December 2011, the Group has continued to closely monitor policy development with respect to the government approval of lottery sales via internet and phone. As Silvercreek is one of the most competitive phone and mobile lottery service providers in China capable of providing lottery organisations with comprehensive phone and mobile betting solutions, the Board believes that the acquisition helped the Group strengthen its technology development capability, team expertise and operational experience in the field of phone lottery, thereby equipping the Group well to react promptly when opportunities arise. Currently, the Group is qualified to apply for mobile/internet licenses and is well positioned to exploit this market opportunity as and when it becomes available.

### **Business Outlook**

With continued improvement in revenue performance, the Directors are optimistic about the outlook for the business and excited about the growth opportunities they see ahead. The Board believes that, in the second half of this year, the business will continue to enjoy rapid growth and achieve further significant milestones. Firstly, following the successful launch of "Lucky Racing" virtual sports betting in Hunan province, the Group expects positive developments as it progresses the rollout of the game to more provinces across China and through other distribution channels. Secondly, the Group expects solid progress in its efforts to develop and introduce more exciting new games and content to the Chinese sports lottery market. Thirdly, the Group continues to closely monitor the prospective online and mobile lottery distribution business and is well equipped to react quickly in response to any new development of government policies. Finally, the Group will endeavor to expand the existing sales networks of GOT both domestically and overseas where there are significant opportunities.



Following the implementation of the Rules on 1 March 2012, the Directors believe that the Chinese government will start to deal with the issuance of licenses for online and mobile lottery distribution. As a prudent lottery group which has been providing legitimate lottery products and services in compliance with the regulations and rules of the Chinese government, and in light of its Silvercreek acquisition, the Group is well positioned to react to such a regulatory change. The Directors believe that such a development would bring great opportunities for the Group to further expand its business into more innovative lottery games and distribution channels in the future.

Taken together with the continuing underlying revenue growth of the sports lottery business in China, the multiple potential areas of expansion outlined above suggest a very positive outlook for the Group for the rest of the year and beyond.

Looking ahead, the Group will continue to explore new business opportunities and forge more strategic business alliances, with a view to increasing its market share and ultimately maximizing returns for shareholders. The Board strongly believes that the solid business foundations, strong customer and government relationships as well as the quality of international gaming partnerships enjoyed by the Group, ideally position it to reach new heights when market opportunities emerge in the rapidly growing sports lottery industry.

### **Financial Performance Review**

For the Six-Month Period, the Group made approximately HK\$99.3 million in revenue, a two-fold increase against the corresponding period in 2011, gross profit for the Six-Month Period amounted to approximately HK\$47.6 million, an increase of approximately HK\$14.2 million or 42.5% from the corresponding period in 2011. The substantial increase of total revenue and gross profit of the Group was mainly attributable to the new subsidiary GOT upon its complete acquisition by the Group in December 2011. All the revenue was derived from provision of sports lottery management and marketing consultancy services and gaming technologies (game software, systems, hardware and terminals) business in the PRC.

The Group's selling and administrative expenses for the Six-Month Period was approximately HK\$51.3 million, representing an increase of approximately HK\$18.5 million or 56.4% against the corresponding period in 2011. The increase was mainly due to general increase in staff cost in the PRC and the additional operating expenses from the new subsidiaries, GOT and Silvercreek.

Loss attributable to owners of the Company for the Six-Month Period amounted to approximately HK\$27.2 million primarily due to the amortisation of other intangible assets (totalling approximately HK\$19.2 million for the Six-Month Period) and the share-based payment expense (totalling approximately HK\$4.6 million for the Six-Month Period).

### **Capital resources, liquidity and gearing ratio**

Net cash and bank balances as at 30 June 2012 were approximately HK\$109.4 million. The total assets and net current assets of the Group as at 30 June 2012 were approximately HK\$1,115.1 million and approximately HK\$231.2 million respectively.

The Group financed its operations primarily with internally generated cashflows as well as the proceeds from previous fund raising exercises and from the exercising by grantees of the share options granted under the share option scheme.

The gearing ratio (determined as the proportion of bank borrowing to equity) of the Group as at 30 June 2012 was nil (as at 31 December 2011: 0.057). The liquidity ratio (defined as current assets over current liabilities) of the Group as at 30 June 2012 was approximately 9.2 (as at 31 December 2011: 3.2), continuously reflecting adequacy of financial resources.

### **Charges on the Group's assets**

As at 30 June 2012, there was no charge on the Group's assets (as at 31 December 2011: HK\$61,150,000).

### **Foreign exchange exposure**

As at 30 June 2012, the Group held cash and bank deposits denominated in Hong Kong Dollars and Renminbi. Since all of its revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted substantially in Hong Kong Dollars and Renminbi, which is not freely convertible into foreign currencies, the Group faced minimal exchange rate risk during the period.

### **Employees' information**

As at 30 June 2012, the Group had 227 employees (30 June 2011: 143) in Hong Kong and the PRC. Total staff costs (excluding directors' remunerations) for the Six-Month Period amounted to approximately HK\$19.8 million.

The Group's remuneration policies are formulated on the basis of performance and experience of individual employees and are in line with the local market practices. In addition to salary, the Group also offers to its employees other fringe benefits including year-end bonus, share option scheme, contributory provident fund, medical benefits and training.

## DIRECTORS' AND CHIEF EXECUTIVES' 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 June 2012, the interests and short positions of the Directors and chief executives 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 (Note 1)	2,033,328,000	52.90%
Mr. Robert Geoffrey Ryan	3,347,750	–	3,347,750	0.09%
Mr. Bai Jinmin	6,687,500	44,876,600 (Note 2)	51,564,100	1.34%
Mr. Liang Yu	6,187,500	–	6,187,500	0.16%
Ms. Yang Yang	414,375	–	414,375	0.01%
Mr. Wang Ronghua	2,275,000	–	2,275,000	0.06%
Mr. Hua Fengmao	1,355,000	–	1,355,000	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 & chief executive officer ("CEO") of the Company, Mr. Sun was deemed to be interested in such Shares.
- These 44,876,600 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 of the Company. 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 June 2012	Approximate percentage of issued share capital of the Company
				As at 1 January 2012	Granted during the Six-Month Period	Exercised during the Six-Month Period		
Mr. Robert Geoffrey Ryan	9-10-2008	0.2198	9-10-2009 – 8-10-2013	6,687,500	-	-	6,687,500	0.17%
	21-12-2011	0.2900	21-12-2012 – 20-12-2016	21,264,000	-	-	21,264,000	0.55%
Mr. Bai Jinmin	9-10-2008	0.2198	9-10-2009 – 8-10-2013	6,687,500	-	-	6,687,500	0.17%
	21-12-2011	0.2900	21-12-2012 – 20-12-2016	21,264,000	-	-	21,264,000	0.55%
Mr. Liang Yu	9-10-2008	0.2198	9-10-2009 – 8-10-2013	6,687,500	-	-	6,687,500	0.17%
	21-12-2011	0.2900	21-12-2012 – 20-12-2016	21,264,000	-	-	21,264,000	0.55%
Ms. Yang Yang	9-10-2008	0.2198	9-10-2009 – 8-10-2013	668,750	-	-	668,750	0.017%
	21-12-2011	0.2900	21-12-2012 – 20-12-2016	2,000,000	-	-	2,000,000	0.052%
Mr. Wang Ronghua	21-12-2011	0.2900	21-12-2012 – 20-12-2016	2,000,000	-	-	2,000,000	0.052%
Mr. Hua Fengmao	21-12-2011	0.2900	21-12-2012 – 20-12-2016	2,000,000	-	-	2,000,000	0.052%
Mr. Kwok Wing Leung Andy	21-12-2011	0.2900	21-12-2012 – 20-12-2016	2,000,000	-	-	2,000,000	0.052%

*Note:* 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 June 2012, none of the Directors or chief executives 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 (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, 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 June 2012, so far as was known to the Directors or chief executives 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 5% 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 <i>(Note)</i>	2,006,250,000	52.19%
TIG ADVISORS LLC	Investment manager	261,400,000	6.80%

*Note:* As disclosed above, Mr. Sun Ho was deemed to be interested in these 2,006,250,000 Shares by virtue of his interest in MAXPROFIT GLOBAL INC.

Save as disclosed above, as at 30 June 2012, the Directors or chief executives 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 5% 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 June 2012, apart from the interests in the Shares, underlying Shares and debentures of the Company and its associated corporations held by the Directors, chief executives 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.

## **INTERESTS IN COMPETING BUSINESS**

During the Six-Month period, none of the Directors or the controlling shareholder of the Company had an interest in a business, which competed or might 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 results of the Group for the Six-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 Six-Month Period, the Company has adopted the code provisions and certain recommended best practices in the Code on Corporate Governance Practices (effective until 31 March 2012) and Corporate Governance Code and Corporate Governance Report (effective from 1 April 2012) 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 CEO should be separate and should not be performed by the same individual. The roles of chairman and CEO of the Company were performed by the executive Director, Mr. Sun Ho, during the Six-Month Period. The Company considered that the combination of the roles of chairman and CEO 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 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 Six-Month period, 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.

### **Corporate Governance Committee**

The Corporate governance committee was established on 23 March 2012 with written terms of reference. The corporate governance committee is to assist the Board in performing the corporate governance duties as required under the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules. The committee is also provided with sufficient resources enabling it to perform its duties. The corporate governance committee comprises two persons, namely, the Chairman Mr. Sun Ho and the Company Secretary Mr. Wong Wai Sing.

## **REQUIRED STANDARD OF DEALINGS REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealings regarding securities transactions by Directors set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its code of conduct for dealings in securities of the Company by the Directors (the "Code of Conduct"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard of dealings set out in the Code of Conduct during the Six-Month Period.

## SHARE OPTION SCHEME

During the Six-Month Period, no options were granted by the Company pursuant to its share option scheme. During the Six-Month Period, no options were exercised and options for 43,514,000 Shares were lapsed. As at 30 June 2012, there were options for 280,781,000 Shares remained outstanding.

The following table discloses details and movements of the Company's share options held by Directors, eligible employees and eligible participants of the Group under the share option scheme of the Company during the Six-Month Period:

Name	Date of grant	Exercise price per Share HK\$	Exercisable period	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2012
<b>Directors:</b>								
Mr. Robert Geoffrey Ryan	9 October 2008	0.2198	9 October 2011 – 8 October 2012	3,343,750	-	-	-	3,343,750
			9 October 2012 – 8 October 2013	3,343,750	-	-	-	3,343,750
	21 December 2011	0.2900	21 December 2012 – 20 December 2013	5,316,000	-	-	-	5,316,000
			21 December 2013 – 20 December 2014	5,316,000	-	-	-	5,316,000
			21 December 2014 – 20 December 2015	5,316,000	-	-	-	5,316,000
21 December 2015 – 20 December 2016	5,316,000	-	-	-	5,316,000			
Mr. Bai Jinmin	9 October 2008	0.2198	9 October 2011 – 8 October 2012	3,343,750	-	-	-	3,343,750
			9 October 2012 – 8 October 2013	3,343,750	-	-	-	3,343,750
	21 December 2011	0.2900	21 December 2012 – 20 December 2013	5,316,000	-	-	-	5,316,000
			21 December 2013 – 20 December 2014	5,316,000	-	-	-	5,316,000
			21 December 2014 – 20 December 2015	5,316,000	-	-	-	5,316,000
21 December 2015 – 20 December 2016	5,316,000	-	-	-	5,316,000			
Mr. Liang Yu	9 October 2008	0.2198	9 October 2011 – 8 October 2012	3,343,750	-	-	-	3,343,750
			9 October 2012 – 8 October 2013	3,343,750	-	-	-	3,343,750
	21 December 2011	0.2900	21 December 2012 – 20 December 2013	5,316,000	-	-	-	5,316,000
			21 December 2013 – 20 December 2014	5,316,000	-	-	-	5,316,000
			21 December 2014 – 20 December 2015	5,316,000	-	-	-	5,316,000
21 December 2015 – 20 December 2016	5,316,000	-	-	-	5,316,000			
Ms. Yang Yang	9 October 2008	0.2198	9 October 2011 – 8 October 2012	334,375	-	-	-	334,375
			9 October 2012 – 8 October 2013	334,375	-	-	-	334,375
	21 December 2011	0.2900	21 December 2012 – 20 December 2013	500,000	-	-	-	500,000
			21 December 2013 – 20 December 2014	500,000	-	-	-	500,000
			21 December 2014 – 20 December 2015	500,000	-	-	-	500,000
21 December 2015 – 20 December 2016	500,000	-	-	-	500,000			



Name	Date of grant	Exercise price per Share HK\$	Exercisable period	Outstanding as at 1 January 2012	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 June 2012
Mr. Wang Ronghua	21 December 2011	0.2900	21 December 2012 – 20 December 2013	500,000	-	-	-	500,000
			21 December 2013 – 20 December 2014	500,000	-	-	-	500,000
			21 December 2014 – 20 December 2015	500,000	-	-	-	500,000
			21 December 2015 – 20 December 2016	500,000	-	-	-	500,000
Mr. Hua Fengmao	21 December 2011	0.2900	21 December 2012 – 20 December 2013	500,000	-	-	-	500,000
			21 December 2013 – 20 December 2014	500,000	-	-	-	500,000
			21 December 2014 – 20 December 2015	500,000	-	-	-	500,000
			21 December 2015 – 20 December 2016	500,000	-	-	-	500,000
Mr. Kwok Wing Leung Andy	21 December 2011	0.2900	21 December 2012 – 20 December 2013	500,000	-	-	-	500,000
			21 December 2013 – 20 December 2014	500,000	-	-	-	500,000
			21 December 2014 – 20 December 2015	500,000	-	-	-	500,000
			21 December 2015 – 20 December 2016	500,000	-	-	-	500,000

**Eligible employees and other eligible participants:**

	9 October 2008	0.2198	9 October 2011 – 8 October 2012	28,734,375	-	-	(1,687,500)	27,046,875
			9 October 2012 – 8 October 2013	29,984,375	-	-	(1,687,500)	28,296,875
	6 July 2010	0.300	6 July 2011 – 5 July 2012	125,000	-	-	-	125,000
			6 July 2012 – 5 July 2013	1,000,000	-	-	-	1,000,000
			6 July 2013 – 5 July 2014	1,000,000	-	-	-	1,000,000
			6 July 2014 – 5 July 2015	1,000,000	-	-	-	1,000,000
	30 March 2011	0.330	30 March 2012 – 29 March 2013	4,350,000	-	-	(500,000)	3,850,000
			30 March 2013 – 29 March 2014	4,350,000	-	-	(500,000)	3,850,000
			30 March 2014 – 29 March 2015	4,350,000	-	-	(500,000)	3,850,000
			30 March 2015 – 29 March 2016	4,350,000	-	-	(500,000)	3,850,000
	21 December 2011	0.2900	21 December 2012 – 20 December 2013	38,132,000	-	-	(9,534,750)	28,597,250
			21 December 2013 – 20 December 2014	38,132,000	-	-	(9,534,750)	28,597,250
			21 December 2014 – 20 December 2015	38,132,000	-	-	(9,534,750)	28,597,250
			21 December 2015 – 20 December 2016	38,132,000	-	-	(9,534,750)	28,597,250
<b>Total</b>				<b>324,295,000</b>	<b>-</b>	<b>-</b>	<b>(43,514,000)</b>	<b>280,781,000</b>
Exercisable at the end of the period				39,225,000				41,387,500
Weighted average exercise price of the outstanding share option				HK\$0.2750				HK\$0.2733

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

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

*For illustration purposes, figures in RMB in this report have been translated into HK\$ at the exchange rate of RMB1 = HK\$1.230.*

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

Hong Kong, 10 August 2012

*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.*