



# AGTech Holdings Limited

(Incorporated in Bermuda with limited liability)

Stock Code: 8279

## THIRD QUARTERLY REPORT 2016



e球彩  
Electronic Ball Lottery

Fortune • Happiness • Health • Luck • Responsibility

## **CHARACTERISTICS OF GEM**

**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.**

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*This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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.*

**FINANCIAL HIGHLIGHTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2016**

- Following Completion on 10 August 2016, the Group has become the exclusive lottery business platform of Alibaba Group and Ant Financial Group.
- Total revenue of the Group for the Nine-Month Period amounted to approximately HK\$149.8 million (2015: approximately HK\$177.8 million). Most of the revenue was derived from lottery games and systems, hardware, distribution and ancillary services in the PRC.
- The decrease in revenue for the Nine-Month Period of approximately 15.7% as compared to that for the same period in 2015 was mainly due to reduced sales of lottery hardware products during the Nine-Month Period. The supply of lottery hardware in the PRC is highly regulated with only a small number of approved suppliers. Revenue in this business typically exhibits an irregular pattern since not only are sales not on a commission basis but also the customer base is concentrated and the timing of orders from customers can be variable. Thus, while over longer periods of time, orders and revenues tend to be stable; in the short term, volatility can be seen.
- During the Nine-Month Period, the gross profit margin percentage stood at approximately 26.8% (2015: approximately 22.7%).
- The Group's loss after tax decreased by approximately 51.1% for the Nine-Month Period to approximately HK\$53.9 million from approximately HK\$110.2 million in 2015. Such decrease was mainly attributable to (i) gain from changes in fair value of contingent consideration payables of approximately HK\$112.4 million due to the remeasurements of the bonus options and deferred consideration under the Score Value Transaction since 31 December 2015; (ii) improvement of the gross profit margin; and (iii) decrease of the share-based payments by approximately HK\$4.4 million; but such loss was partially offset by the increase in selling and administrative expense by approximately HK\$58.3 million and such increase was due to payment of the PRC individual income tax ("IIT") of approximately HK\$55.6 million in respect of the exercise of share options granted by the Company under the Share Option Schemes to its PRC subsidiaries' employees who are subject to PRC IIT.
- The Board does not recommend the payment of an interim dividend for the Nine-Month Period.

**THIRD QUARTERLY RESULTS**

The Board is pleased to announce the unaudited consolidated results of the Group for the three months ended 30 September 2016 (the "Three-Month Period") and the nine months ended 30 September 2016 (the "Nine-Month Period"), together with the comparative unaudited figures for the corresponding period in 2015 as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**

For the three months and nine months ended 30 September 2016

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	2	<b>73,148</b>	76,715	<b>149,779</b>	177,827
Cost of sales and services		<b>(55,711)</b>	(65,230)	<b>(109,599)</b>	(137,477)
Gross profit		<b>17,437</b>	11,485	<b>40,180</b>	40,350
Investment and other income		<b>1,364</b>	713	<b>4,126</b>	5,794
Selling and administrative expenses		<b>(87,416)</b>	(26,096)	<b>(140,803)</b>	(82,545)
Share of losses of a joint venture		–	–	<b>(3)</b>	–
Loss from business operations		<b>(68,615)</b>	(13,898)	<b>(96,500)</b>	(36,401)
Share-based payments		<b>(13,760)</b>	(39,820)	<b>(66,577)</b>	(70,978)
Net foreign exchange (loss)/gain		<b>(328)</b>	14	<b>950</b>	4
Amortisation of other intangible assets		–	(105)	–	(344)
Gain from changes in fair value of contingent consideration payables		<b>62,386</b>	–	<b>112,388</b>	–
Finance costs		<b>(321)</b>	(94)	<b>(1,232)</b>	(101)
Loss before tax		<b>(20,638)</b>	(53,903)	<b>(50,971)</b>	(107,820)
Income tax credit/(expense)	3	<b>517</b>	55	<b>(2,932)</b>	(2,339)
<b>Loss for the period</b>		<b>(20,121)</b>	(53,848)	<b>(53,903)</b>	(110,159)
Loss attributable to:					
Owners of the Company		<b>(20,114)</b>	(53,232)	<b>(53,252)</b>	(107,831)
Non-controlling interests		<b>(7)</b>	(616)	<b>(651)</b>	(2,328)
		<b>(20,121)</b>	(53,848)	<b>(53,903)</b>	(110,159)
<b>Loss per share</b>					
Basic and diluted	4	<b>HK\$0.249 cent</b>	HK\$1.174 cents	<b>HK\$0.901 cent</b>	HK\$2.393 cents

	Three months ended 30 September		Nine months ended 30 September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Loss for the period	<b>(20,121)</b>	(53,848)	<b>(53,903)</b>	(110,159)
<b>Other comprehensive income, net of income tax</b>				
Translation differences on translating foreign operations	<b>(4,841)</b>	(44,282)	<b>(28,140)</b>	(45,868)
<b>Total comprehensive income for the period</b>	<b>(24,962)</b>	(98,130)	<b>(82,043)</b>	(156,027)
Total comprehensive income attributable to:				
Owners of the Company	<b>(24,919)</b>	(97,106)	<b>(81,180)</b>	(153,300)
Non-controlling interests	<b>(43)</b>	(1,024)	<b>(863)</b>	(2,727)
	<b>(24,962)</b>	(98,130)	<b>(82,043)</b>	(156,027)

Notes:

#### 1. BASIS OF PREPARATION OF THE ACCOUNTS

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

The unaudited 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 2015.

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**

Revenue represents the amounts received and receivable from lottery games and systems, hardware, distribution and ancillary services provided in the PRC during the Three-Month Period and the Nine-Month Period.

**3. INCOME TAX CREDIT/(EXPENSE)**

Income tax credit/(expense) for the Three-Month Period and Nine-Month Period represents PRC Enterprise Income Tax.

**4. LOSS PER SHARE**

The calculation of basic and diluted loss per Share for the Three-Month Period and the Nine-Month Period is based on the unaudited loss attributable to owners of the Company (in HK\$'000) of HK\$(20,114) and HK\$(53,252) respectively (for the three months and nine months ended 30 September 2015 (in HK\$'000): net loss of HK\$53,232 and HK\$107,831 respectively), and the weighted average number of 8,063,186,943 and 5,908,611,474 ordinary shares in issue during the Three-Month Period and the Nine-Month Period respectively (for the three months and nine months ended 30 September 2015: 4,534,439,158 and 4,507,008,470 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.

**5. DIVIDEND**

The Board does not recommend the payment of an interim dividend for the Nine-Month Period (2015: Nil).

## 6. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

### For the Nine-Month Period

	Attributable to owners of the Company									Attributable to non-controlling interests	Total	
	Share capital	Share premium	Share options reserve	Statutory reserve	Exchange reserve	Contributed surplus	Property revaluation reserve	Other reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Subtotal	HK\$'000	HK\$'000
Balance at 1 January 2015	8,881	1,428,088	193,144	15,261	192,982	47,191	14,402	-	(681,109)	1,218,840	3,067	1,221,907
Loss for the period	-	-	-	-	-	-	-	-	(107,831)	(107,831)	(2,328)	(110,159)
Other comprehensive income for the period	-	-	-	-	(45,469)	-	-	-	-	(45,469)	(399)	(45,868)
Total comprehensive income for the period	-	-	-	-	(45,469)	-	-	-	(107,831)	(153,300)	(2,727)	(156,027)
Recognition of equity-settled share-based payments	-	-	70,978	-	-	-	-	-	-	70,978	-	70,978
Shares issued on exercise of part of share options	227	69,274	(10,290)	-	-	-	-	-	-	59,211	-	59,211
Lapse of share options	-	-	(7,330)	-	-	-	-	-	7,330	-	-	-
Reserve for deferred consideration	-	-	-	-	-	-	-	60,810	-	60,810	-	60,810
Transfer to accumulated losses	-	-	-	(2)	-	-	-	-	2	-	-	-
<b>Balance at 30 September 2015</b>	<b>9,108</b>	<b>1,497,362</b>	<b>246,502</b>	<b>15,259</b>	<b>147,513</b>	<b>47,191</b>	<b>14,402</b>	<b>60,810</b>	<b>(781,608)</b>	<b>1,256,539</b>	<b>340</b>	<b>1,256,879</b>
Balance at 1 January 2016	9,213	1,540,597	168,549	18,189	128,335	47,191	14,402	60,811	(928,082)	1,059,205	(682)	1,058,523
Loss for the period	-	-	-	-	-	-	-	-	(53,252)	(53,252)	(651)	(53,903)
Other comprehensive income for the period	-	-	-	-	(27,928)	-	-	-	-	(27,928)	(212)	(28,140)
Total comprehensive income for the period	-	-	-	-	(27,928)	-	-	-	(53,252)	(81,180)	(863)	(82,043)
Issue of shares	9,635	1,665,783	-	-	-	-	-	-	-	1,675,418	-	1,675,418
Issue of shares upon conversion of convertible bonds	1,371	202,977	-	-	-	-	-	-	-	205,348	-	205,348
Issue of consideration shares	20	9,101	-	-	-	-	-	(9,121)	-	-	-	-
Recognition of equity-settled share-based payments	-	-	66,577	-	-	-	-	-	-	66,577	-	66,577
Shares issued on exercise of part of share options	733	270,882	(80,440)	-	-	-	-	-	-	191,175	-	191,175
Lapse of share options	-	-	(2,223)	-	-	-	-	-	2,223	-	-	-
Capital Contribution from non-controlling interest	-	-	-	-	-	-	-	-	-	-	12,250	12,250
<b>Balance at 30 September 2016</b>	<b>20,972</b>	<b>3,690,340</b>	<b>152,463</b>	<b>18,189</b>	<b>100,407</b>	<b>47,191</b>	<b>14,402</b>	<b>51,690</b>	<b>(978,111)</b>	<b>3,116,543</b>	<b>10,705</b>	<b>3,127,248</b>

## **DISCUSSION AND ANALYSIS OF THE GROUP'S RESULTS AND BUSINESS**

### **About the Group**

AGTech Holdings Limited was incorporated in Bermuda and its shares are listed on the GEM. The Group is an integrated lottery technology and services company in the PRC lottery market and is the exclusive platform of Alibaba Group and Art Financial Group for lottery. As at the date of this report, the Group has a team of over 200 employees, and the footprint of the Group's lottery business covers multiple provinces and municipalities across the PRC.

The Group's vision and strategy is to be a fully integrated service provider for the PRC lottery industry. Its principal business activities comprise:

- (i) Games and systems: the development and supply of lottery games, related software and underlying supporting systems;
- (ii) Hardware: the development, sale and maintenance of lottery hardware (terminals and other lottery-related equipment);
- (iii) Distribution: the sales and distribution of lottery games; and
- (iv) Ancillary Services: the provision of ancillary services.

The Group is committed to applying international management concepts and advanced technologies to the PRC lottery industry along the entire value chain, covering lottery systems, lottery hardware, lottery games, internet and mobile smart phone systems and distribution, wireless network and streaming media, thereby providing the PRC's lottery authorities and millions of lottery players in the PRC with professional and integrated lottery services.

The Group is an associate member of each of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA).



## **Corporate Strategy and Objectives**

Our long-term objective is to maintain a leading position as an integrated service provider in the PRC lottery market. We will continue to support both of the PRC's legal lottery operators, namely the Welfare Lottery and the Sports Lottery, in this respect. In order to achieve our objectives, we are committed to bringing together international and domestic industry expertise, technologies, management, skills and infrastructure into the PRC lottery market both through the existing and any new remote channels. The Group has been working with various world-renowned strategic partners in these efforts for many years.

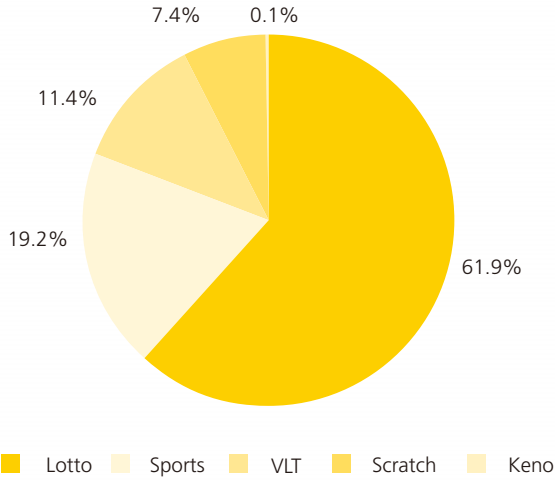
## **Industry Overview**

According to information published by the MOF, during the first nine months of the year, the lottery market recorded sales of approximately RMB289.7 billion, an increase of approximately 6.6% compared to the corresponding period in 2015. Of this, Welfare Lottery amounted to approximately RMB151.3 billion (accounting for 52.2% of total lottery sales), an increase of approximately 1.6% year on year. The Sports Lottery achieved sales of approximately RMB138.4 billion (47.8% of total lottery sales), an increase of approximately 12.6% against the corresponding period in 2015.

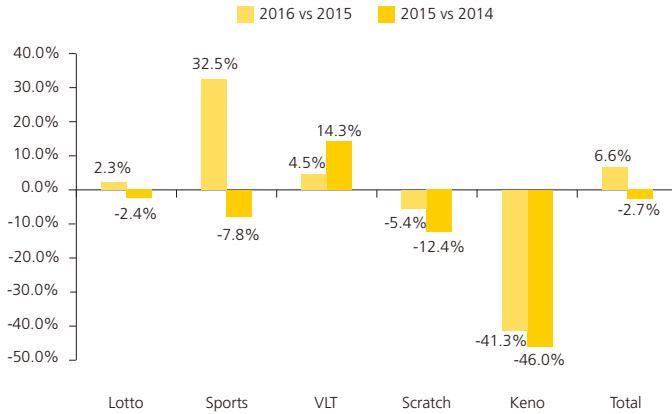
The Welfare Lottery and the Sports Lottery have five main product categories: lotto type lottery game product that are either traditional in nature with a daily or weekly draw pattern as well as modern high frequency games featuring multiple draws per hour ("Lotto"), sport betting ("Sports"), video lottery terminals ("VLT"), Keno type game product ("Keno") and instant scratch cards ("Scratch").

### Product Review

**Market Share of Sales by Product (Jan – Sep 2016)**



Source: MOF

**Year on Year Growth Rate Comparison by Product: Jan – Sep**

Source: MOF

Lotto remains the largest product in the China lottery market representing 61.9% of sales in the first nine months of the year. Although sales growth of the Lotto product was relatively modest during the Nine-Month Period, the rate of sales growth in the Sports and VLT categories was sufficient to offset this as well as the continued decline of Scratch and the minor Keno product.

## **Business Review**

Total revenue of the Group for the Nine-Month Period amounted to approximately HK\$149.8 million (2015: approximately HK\$177.8 million). Most of the revenue was derived from lottery games and systems, hardware, distribution and ancillary services in the PRC. The decrease in revenue for the Nine-Month Period of approximately 15.7% as compared to that for the same period in 2015 was mainly due to reduced sales of lottery hardware products during the Nine-Month Period. The supply of lottery hardware in the PRC is highly regulated with only a small number of approved suppliers. Revenue in this business typically exhibits an irregular pattern since not only are sales not on a commission basis but also the customer base is concentrated and the timing of orders from customers can be variable. Thus, while over longer periods of time, orders and revenues tend to be stable; in the short term, volatility can be seen.

During the Nine-Month Period, the gross profit margin percentage stood at approximately 26.8% (2015: approximately 22.7%). The slight increase was mainly attributable to a change in sales mix in the hardware division.

Following completion of the Subscription (as defined below) with Alibaba Group and Ant Financial on 10 August 2016, AGTech has become the exclusive lottery business platform of Alibaba Group (as defined below) and Ant Financial Group (as defined below). We believe that the transaction enhances our ability to develop and expand our existing business and in particular we expect that our mobile and internet lottery business will benefit from significant potential synergies resulting from the cooperation with Alibaba Group and Ant Financial. Detailed work is currently taking place to identify the short, medium and long-term opportunities available to the parties in order to fully capture the potential synergies. As described under the section headed "Business Cooperation Framework Agreement" in this document, work is also taking place on the detailed commercial arrangements to be entered into among the parties.

## **Games and Systems**

### ***The development and supply of lottery games, related software and underlying supporting systems***

The Games & Systems division has a reserve of rich and attractive lottery game content in various product categories designed to fulfil the demands of the lottery market and the lottery players.

### **Virtual Lottery Games**

Asia Gaming Technologies Limited (“AGT”), our 51%-owned joint venture with Ladbroke Group (one of the world’s largest sports betting companies), supplies the PRC’s only virtual sports lottery platform to China Sports Lottery and has successfully launched two virtual sports games in the PRC. AGT’s motor racing-themed virtual game “Lucky Racing” (“幸運賽車”) was launched in Hunan Province in 2011 while its football themed game “e-Ball Lottery” (“e球彩”) was launched in Jiangsu Province during 2013. “Lucky Racing” and “e-Ball Lottery” are virtual sports lottery games that are broadcast to lottery shops via a central computer and cable television, allowing customers to bet on computer generated car races or football matches respectively. The betting options are like those typically offered for live car racing or live football matches in other countries. To date, “Lucky Racing” and “e-Ball Lottery” have been successfully launched in traditional dedicated Sports Lottery shops and the games are targeted to be deployed to more province(s) via this channel. In addition, in due course, the games could be deployed in selected leisure venues (such as coffee shops and restaurants). Since both games are approved lottery products as defined by MOF, we believe that both “Lucky Racing” and “e-Ball Lottery” could be introduced via the internet and mobile channel across the PRC (subject to regulatory approval) where we would expect them to be highly popular.

During the Nine-Month Period, the Group continued to supply its virtual sports lottery games “e-Ball Lottery” and “Lucky Racing” to the launch provinces of Jiangsu and Hunan respectively. “Lucky Racing” has become a very popular lottery game in Hunan Sports Lottery. Our technical partners at the Sports Lottery have completed the technical preparation work of the national high frequency game platform and have satisfied the technical requirements necessary to carry our “Lucky Racing” to other provinces beyond Hunan and we target the game to be supplied to more PRC province(s). “e-Ball Lottery” is a football-themed virtual sports lottery game with a 69% pay-out ratio. Like “Lucky Racing”, “e-Ball Lottery” is a NSLAC-approved and fully operational lottery game and has been launched in China’s largest Sports Lottery province. “e-Ball Lottery” continues to operate smoothly. In close cooperation with our customer and the relevant lottery authorities in China, we are continually optimising the game and we are encouraged by the potential of this game. Like “Lucky Racing”, we aim to roll out “e-Ball Lottery” to more PRC province(s) in China in due course. Virtual sports lottery, pioneered in China by AGTech, is now an established and diversified game category and is fully accepted by the PRC lottery market.

### ***Other Categories***

In addition to virtual lottery games, the Group has launched a number of strategic initiatives to introduce new types of lottery and non-lottery games to the PRC, including a mobile smart phone lottery game and system, a high frequency numbers-based lottery game, and other non-lottery game categories new to the PRC. The Group intends to introduce these new products to the market in the future, and lottery games are subject to the relevant regulatory approvals.

The Group plans to continue to work with international partners for research and development of various types of self-developed, creative and new lottery and non-lottery games that are suitable to cater for the evolving tastes of the Chinese people.

### ***Hardware***

#### ***The development, sale and maintenance of lottery hardware (terminals and other lottery-related equipment)***

AGTech's hardware division supplies both the Welfare Lottery and Sports Lottery and has lottery hardware deployed in multiple provinces, cities and municipalities of the PRC. The Group is a leading manufacturer and supplier of both paper scratch card sales hardware (instant ticket verification terminals, "IVT(s)") and traditional lottery terminals and enjoys international as well as domestic sales.

It is anticipated that the slow pace of ordering seen in the hardware market this year will be a temporary feature. We are continuing to pursue international opportunities for our hardware and currently the Group is in active discussions with a number of potential international customers and/or distributors and we have machines live or on trial in markets such as South Africa, Cyprus, the United Kingdom, Italy, Austria and Canada.

Thanks to the anticipated rapid technology development of the PRC, the Group believes that effective R&D activities are essential to ensure that the Group's hardware business remains up-to-date and equipped with competitive technology. The Group's hardware division plans to continue to focus on R&D, increase its domestic market share and broaden its product spectrum with new hardware ranges such as VLT which would be suitable for both domestic and international users.

## ***Distribution***

### ***The sales and distribution of lottery games***

The Group continues to closely monitor policy developments with respect to the government approval of lottery sales via internet and mobile and continues to operate two offline shops for the sale and distribution of lottery games. To date, in line with the relevant lottery regulations, the Group has not conducted any internet lottery sales or maintained any website to conduct such sales.

In the internet channel, the authorities are working on a national (as opposed to provincial) internet distribution system for lottery. It is anticipated that sales of the Group's approved games, "Lucky Racing" and "e-Ball Lottery", could benefit strongly when such a system is introduced.

The Group is well positioned to harness the lottery and non-lottery internet, mobile and physical sales channels in various aspects on the basis of its valuable PRC internet service provider and PRC internet content provider experience, its excellent business track record, its position as the exclusive lottery business platform for Alibaba Group and Ant Financial Group and the Group's long-established close cooperation with various potential domestic and international distribution, technology and game content partners.

## ***Services***

### ***The provision of ancillary services***

The Group has been providing ancillary services to the PRC provincial lottery authorities since early 2007. In this time, we have provided a wide range of products and services to our provincial clients to assist them in growing sales and improving operations in an efficient manner. Our services include consulting, marketing, training and channel management.

Over many years, the track record of this division as a reliable supplier of quality lottery services to the provincial Sports Lottery authorities in China has been an important enabler of the Group's strategy, cementing the Group's first class relationships and reputation across the PRC.

The Services business' contribution to Group revenue is currently modest. However, in light of the Group's valuable experience, solid background as well as its trusting cooperative relationships built up with various provincial lottery administration and distribution authorities over the years, together with new lottery technologies/terminals to be introduced and new developments in the new internet/mobile channel business, it is expected that new opportunities for the Services business will emerge. We are currently exploring and building new business co-operations and business models in this area.

### **Business Outlook**

Policy development plays a crucial role in facilitating the stable development of the PRC lottery industry. The market expects that in the coming months and years, the PRC lottery industry will see further significant policy developments including the introduction of relevant laws and regulations (particularly related to internet and mobile distribution) which will further regulate and professionalise lottery supervision. Thanks to many years of accurately interpreting national regulations and policies, AGTech has successfully grasped industry trends and formulated a corresponding, long-term strategy for business development. Providing full-service solutions across game software and systems, hardware and distribution, we are a fully integrated lottery technology and service provider. We have a track record of working with international lottery technology and services companies to localise and customise games for the PRC, setting us apart in a market where the demand for sophisticated technology is rising with respect to new games, systems, hardware and distribution channels. We believe that the Group is very well placed to capture opportunities arising from the evolution of PRC lottery policy.

The Group has been closely monitoring policy developments with respect to the government approval of lottery sales via internet and mobile channels for many years. We believe that new online and mobile channels for lottery sales in the PRC are likely to be approved. We believe that any new games and systems that will be approved for online sales will require robust and scalable technology in order to deliver effective and efficient monitoring and control systems. We consider that the Group is well positioned to participate in these areas, particularly now that the Group is part of the Alibaba and Ant Financial family.



Our proprietary in-store games, “Lucky Racing” and “e-Ball Lottery”, remain successful. Due to the disappointing growth trajectory of national lottery sales of the traditional lottery products seen during much of 2015 and in the early part of 2016, we anticipate an increased urgency within the lottery to push new products to the stores and we believe that this may likely lead to both “Lucky Racing” and “e-Ball Lottery” expanding beyond their launch provinces in due course.

On the topic of hardware, we believe that developments in the PRC lottery market are likely to demand new and more sophisticated hardware solutions that can be deployed as bundled products involving the supply of hardware that is integrated with lottery games and underlying supporting systems and which would benefit from a revenue sharing model. In light of our leading positions in point of sale and handheld terminals as well as our first class international partnerships and long track-record in the PRC lottery market, we believe that AGTech is very well positioned to take advantage of such new opportunities in hardware.

Following completion of the Subscription with Alibaba Group and Ant Financial on 10 August 2016, AGTech is the exclusive lottery business platform of Alibaba Group and Ant Financial Group. We believe that the transaction enhances our ability to develop and expand our existing business and in particular we expect that our mobile and internet lottery business will benefit from significant potential synergies resulting from the cooperation with Alibaba Group and Ant Financial Group.

Taken together with the continuing underlying revenue growth potential of the PRC lottery business, the numerous catalysts for strategic growth outlined above suggest a very positive outlook for the Group for the final quarter of 2016 and in the years ahead.

### **SUBSCRIPTION FOR SUBSCRIPTION SHARES AND CONVERTIBLE BONDS**

As disclosed in the announcement of the Company dated 4 March 2016 (the "Subscription Announcement"), the Company entered into a subscription agreement dated 4 March 2016 ("Subscription Agreement") with, among others, Ali Fortune Investment Holding Limited (the "Subscriber" or "Ali Fortune"), which is a company indirectly owned as to 60% by Alibaba Group Holding Limited ("Alibaba Holding", together with its subsidiaries, the "Alibaba Group") and as to 40% by Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. ("Ant Financial", together with its subsidiaries, the "Ant Financial Group"). Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe for:

- (i) an aggregate of 4,817,399,245 new Shares (the "Subscription Shares") (representing approximately 45.94% of the issued share capital of the Company as at the date hereof) at a subscription price of HK\$0.3478 per Share; and
- (ii) convertible bonds of the Company in the aggregate principal amount of HK\$712,582,483 (the "Convertible Bonds"), which shall entitle the bondholders to subscribe for up to 2,048,918,721 Shares (the "Conversion Shares") at an initial conversion price of HK\$0.3478 per Share (subject to adjustment).

(The subscription for the Subscription Shares and the Convertible Bonds is referred to as the "Subscription" hereinafter.)

As disclosed in the announcements of the Company dated 16 March 2016, 23 March 2016, 10 May 2016, 26 May 2016, 29 August 2016, 23 September 2016 and 18 October 2016, the conversion price of the Convertible Bonds has now been adjusted to HK\$0.2918 per Share (the "Prevailing Adjusted Conversion Price").

The aggregate nominal value of the 4,817,399,245 Subscription Shares issued under the Subscription Agreement is approximately HK\$9,634,798. The subscription price of HK\$0.3478 per Share under the Subscription and the Prevailing Adjusted Conversion Price of HK\$0.2918 per Share represents a discount of approximately 82.5% and approximately 85.3% respectively to the closing price of HK\$1.99 per Share as quoted on the Stock Exchange on 4 March 2016, being the date of the Subscription Agreement.

Completion of the Subscription (the “Completion”) took place on 10 August 2016 following satisfaction and waiver of the conditions precedent in accordance with the terms of the Subscription Agreement. A total of 4,817,399,245 Subscription Shares and Convertible Bonds in the aggregate principal amount of HK\$712,582,483 were issued and allotted to the Subscriber in accordance with the terms and conditions of the Subscription Agreement. The allotment and issue of the Subscription Shares and the Conversion Shares under a specific mandate were approved by the independent Shareholders at the New SGM.

### **Partial conversion of the Convertible Bonds**

On 10 August 2016, the Company received a conversion notice from the Subscriber in respect of the exercise of conversion rights attaching to the Convertible Bonds in an aggregate principal amount of HK\$205,347,555. Accordingly, the Company has allotted and issued an aggregate of 685,324,748 Conversion Shares (representing approximately 6.53% of the issued share capital of the Company as at the date hereof) to the Subscriber at the then conversion price of HK\$0.2996 per Share on the same day. Such Conversion Shares rank pari passu with all the existing Shares as at the date of allotment and among themselves in all respects. Immediately following the aforesaid partial conversion of the Convertible Bonds, the Subscriber held a total of 5,502,723,993 Shares (representing approximately 52.47% of the issued share capital of the Company as at the date hereof).

Convertible Bonds in an aggregate principal amount of HK\$507,234,928 remained outstanding as at 30 September 2016 and the maximum number of Conversion Shares that will be issued upon full conversion of such outstanding Convertible Bonds at the Prevailing Adjusted Conversion Price of HK\$0.2918 per Share is 1,738,093,503 (representing approximately 16.57% of the issued share capital of the Company as at the date hereof and approximately 14.22% of the issued share capital of the Company as enlarged by such outstanding Conversion Shares).

### **Implications under GEM Listing Rules and compliance with Takeovers Code**

At the time of entering into the Subscription Agreement, the Subscriber and its ultimate beneficial owners were parties independent of the Company and the connected persons (as defined under the GEM Listing Rules) of the Company. Following Completion, the Subscriber has become the “controlling shareholder” (and hence a “connected person”) of the Company under the GEM Listing Rules.

In respect of both the Subscription Shares and the Conversion Shares, the Subscriber made a Whitewash Waiver application to the Executive. The Whitewash Waiver (in respect of both the Subscription Shares and the Conversion Shares) was granted by the Executive and approved by the independent Shareholders at the New SGM by way of a poll.

### **Reasons for the Subscription**

The reasons for the Subscription can be found in the section headed “REASONS FOR THE SUBSCRIPTION” in the Subscription Announcement. Having considered the various factors stated therein, the Directors (who served on the Board before Completion) considered that the terms of the Subscription were fair and reasonable and on normal commercial terms and the entering into of the Subscription Agreement was in the interests of the Company and the Shareholders as a whole.

### **Key terms of the Convertible Bonds**

- The Convertible Bonds bear no interest on the principal amount. However, if the Company shall pay any dividend in cash or scrip to the Shareholders, each bondholder shall be entitled to be paid interest in respect of that dividend as if the Convertible Bonds held by such bondholder have been converted into Shares in full at the applicable conversion price.

- The Convertible Bonds may be converted by the Subscriber in full or in part at any time during the period on or after the issuance date of the Convertible Bonds and up to the maturity date (which is the third anniversary of the date of issuance of such bonds), provided that, following such conversion, (i) at least 25% of the Company's total number of issued Shares are held by the public (as defined under the GEM Listing Rules); and (ii) the Company is otherwise in compliance with the public float requirements under Rule 11.23(7) of the GEM Listing Rules.
- On the other hand, the Company may, by giving prior written notice to the bondholders, require all (but not any one) of the bondholders to convert their Convertible Bonds into Shares in full at any time on or after the issuance date of the Convertible Bonds and up to a date no later than five business days prior to the aforesaid maturity date, provided that, following such conversion, (i) at least 25% of the Company's total number of issued Shares are held by the public (as defined under the GEM Listing Rules); and (ii) the Company is otherwise in compliance with the public float requirements under Rule 11.23(7) of the GEM Listing Rules.
- Following the occurrence of any special event as set out in the bond instrument in respect of the Convertible Bonds, such as change of control, each bondholder will have the right to require the Company to redeem in whole but not in part such bondholder's Convertible Bonds at 112% of the principal amount of such Convertible Bonds.
- The conversion price of the Convertible Bonds will be subject to customary anti-dilution adjustment for, among other things, consolidation, subdivision or reclassification of the Shares, capitalisation of profits or reserves, capital distribution, rights issues of Shares or options over Shares, rights issues of other securities and other dilutive events.

- If the Company shall issue Shares or grant options to subscribe for any Shares under the Score Value Transaction, or shall issue Shares under the Rainwood Options or the Consultant Options, the conversion price of the Convertible Bonds shall be adjusted in a manner so that:

(i) the shareholding of the Subscriber (the "Subscriber Shareholding") in the Company (based on the number of Shares that the Subscriber acquired upon Completion and that it (or any of its affiliates) continues to hold plus such Shares that the Subscriber would acquire upon conversion of the Convertible Bonds in full) on a fully-diluted basis immediately following the issuance of such Shares and/or the grant of such options

is equal to:

(ii) the Subscriber Shareholding immediately prior to the issuance of such Shares and/or the grant of such options.

Following such adjustment due to the grant of the options under the Score Value Transaction, the conversion price of the Convertible Bonds shall not be further adjusted when such options are exercised.

If, at the time all or any part of the Convertible Bonds are to be converted into Shares, there are outstanding options to subscribe for Shares under the Rainwood Options or the Consultant Options, the conversion price of the Convertible Bonds shall be adjusted as if such options had been exercised.

- The payment obligations of the Company under the Convertible Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable laws, at all times rank at least equally with all of the Company's other present and future direct, unsubordinated, unconditional and unsecured obligations.
- No application will be made for a listing of the Convertible Bonds.
- The Convertible Bonds are freely transferable.

### **Use of proceeds from the Subscription**

The aggregate consideration for the Subscription Shares and the Convertible Bonds received by the Company from the Subscriber upon Completion amounted to HK\$1,675,417,517 and HK\$712,582,483, respectively, totalling HK\$2.388 billion in cash.

The Group financed its operations primarily with internally generated cash flows, bank borrowings as well as the proceeds from previous fund raising exercise and the Subscription and from the exercising by grantees of the share options granted under the Share Option Schemes. Immediately upon Completion, the cash position of the Group has been substantially strengthened by the net proceeds of approximately HK\$2.38 billion only.

The Net Proceeds will be used to fund the existing operations and future development of the Company's existing principal businesses. In particular, the Group plans to utilise approximately HK\$1,330 million (representing approximately 55.88% of the Net Proceeds) within 12 months from 10 August 2016 (i.e. the date of Completion) and such proceeds shall be allocated to each of the business segments of the Group and for general corporate purposes as set out below and in the section headed "USE OF PROCEEDS" on pages 45 to 51 of the Whitewash Circular.

Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 30 September 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
(i) <b>Games and systems:</b> Expansion of the Group's existing business in relation to the development of lottery games, related software and underlying supporting systems			
(a) <i>capital investment in on-going development of new lottery games to be introduced to the market pending regulatory approval (approximately HK\$300 million to be allocated)</i>	approximately HK\$100 million	Nil	NA
(b) <i>research and development of new lottery products of the Group (approximately HK\$300 million to be allocated)</i>	approximately HK\$100 million	Nil	NA
(c) <i>expansion and development of the Group's research and development ("R&amp;D") capability in technology development for games and systems (approximately HK\$150 million to be allocated)</i>	approximately HK\$50 million	approximately HK\$1 million	Staff costs for new expansion of the R&D team of the Group



<b>Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated</b>	<b>Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)</b>	<b>Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 30 September 2016</b>	<b>Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)</b>
(d) <i>acquisition of lottery systems and lottery games or companies which have such systems and games (approximately HK\$400 million to HK\$800 million to be allocated)</i>	approximately HK\$500 million	Nil	NA
(e) <i>funding the remaining consideration for the Score Value Transaction contingent upon certain performance targets (approximately HK\$50 million to be allocated)</i>	approximately HK\$50 million	Nil	NA
<b>Sub-total for "Games and systems":</b>	approximately HK\$800 million	approximately HK\$1 million	

Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 30 September 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
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**Total amount earmarked for "Games and systems":**

- approximately HK\$1,200 million or approximately 50.42% of Net Proceeds
- (Remaining balance of Net Proceeds still available for "Games and systems" as at 30 September 2016: approximately HK\$1,199 million)

(ii) **Hardware:**

<i>R&amp;D activities to upgrade the Group's hardware products with more sophisticated technology that are supplied to customers based on a revenue-sharing model</i>	<b>approximately HK\$80 million</b>	<b>Nil</b>	<b>NA</b>
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**Total amount earmarked for "Hardware":**

- approximately HK\$120 million or approximately 5.05% of Net Proceeds
- (Remaining balance of Net Proceeds still available for "Hardware" as at 30 September 2016: approximately HK\$120 million)

<b>Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated</b>	<b>Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)</b>	<b>Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 30 September 2016</b>	<b>Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)</b>
(iii) <b>Distribution:</b> Expansion/constructions of the Group's sales and distribution offline/online network			
(a) <i>expansion of offline sales and distribution business (approximately HK\$100 million to be allocated)</i>	approximately HK\$50 million	approximately HK\$26 million	Investment for expansion of offline sales business
(b) <i>marketing and advertising campaigns for its existing offline lottery games (approximately HK\$100 million to be allocated)</i>	approximately HK\$50 million	Nil	NA
(c) <i>acquisitions of online and offline distributors (approximately HK\$250 million to be allocated)</i>	approximately HK\$150 million	Nil	NA
(d) <i>online sales and distribution of lottery products (including but not limited to the future cooperation with Taobao (China) Software Co., Ltd. and Alipay.com Co., Ltd.) (approximately HK\$400 million to be allocated)</i>	approximately HK\$100 million	Nil	NA
<b>Sub-total for "Distribution":</b>	<b>approximately HK\$350 million</b>	<b>approximately HK\$26 million</b>	

<b>Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated</b>	<b>Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)</b>	<b>Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 30 September 2016</b>	<b>Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)</b>
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**Total amount earmarked for "Distribution":**

- approximately HK\$850 million or approximately 35.71% of Net Proceeds
- (Remaining balance of Net Proceeds still available for "Distribution" as at 30 September 2016: approximately HK\$824 million)

**(iv) General corporate purposes:**

(a) <i>repayment of existing debts of the Group (approximately HK\$60 million to be allocated)</i>	approximately HK\$60 million	approximately HK\$22 million	Repayment of bank borrowings of the Group
(b) <i>general working capital of the Group (approximately HK\$150 million to be allocated)</i>	approximately HK\$40 million	approximately HK\$40 million	Approximately HK\$40 million were used and associated with the PRC subsidiaries general working capital

<b>Sub-total for "General corporate purposes":</b>	<b>approximately HK\$100 million</b>	<b>approximately HK\$62 million</b>	
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**Total amount earmarked for "General corporate purposes":**

- approximately HK\$210 million or approximately 8.82% of Net Proceeds
- (Remaining balance of Net Proceeds still available for "General corporate purposes" as at 30 September 2016: approximately HK\$148 million)

Business segments of the Group, or general corporate purposes, to which the Net Proceeds are intended to be allocated	Amount intended to be used within 12 months from the date of Completion on 10 August 2016 (as disclosed in the Whitewash Circular)	Aggregate amount actually used from the date of Completion on 10 August 2016 up to and including 30 September 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
<b>Grand total:</b>	approximately HK\$1,330 million	approximately HK\$89 million	

- Total remaining balance of Net Proceeds as at 30 September 2016: approximately HK\$2,291 million, representing approximately 96.26% of the Net Proceeds (Note)

NA: Not applicable

Note: Remaining balance of Net Proceeds is placed in the bank accounts of the Group.

### **Business Cooperation Framework Agreement**

A Business Cooperation Framework Agreement (as more particularly described in the Whitewash Circular) has been entered into among Taobao (China) Software Co., Ltd. ("Taobao Software", a subsidiary of Alibaba Holding), Alipay.com Co., Ltd. ("Alipay", a wholly-owned subsidiary of Ant Financial) and the Company at Completion, pursuant to which the Group has become the exclusive business platform of Alibaba Group and Ant Financial Group for the lottery business.

It is contemplated under the Business Cooperation Framework Agreement that the Group shall pay service fees to the relevant members of Alibaba Group and Ant Financial Group determined as a certain percentage of the commission income received by the Group for lottery sales contributed by the online lottery players introduced through Alibaba Group and Ant Financial Group's platforms. Further, Taobao Software and Alipay will provide technical services and resources, such as, cloud computing services and e-commerce, to the Group on a service fee to be agreed by the parties.



Prior to the implementation of the business cooperation contemplated under the Business Cooperation Framework Agreement, the parties (or their respective affiliates) will further negotiate and enter into definitive agreements setting out the specific terms and conditions. If any transactions contemplated under any such definitive agreements constitute continuing connected transactions for the Company, the Company will comply with applicable requirements in accordance with Chapter 20 of the GEM Listing Rules as and when required.

### **Increase in authorised share capital**

In order for the Company to carry out the Subscription and to fulfill its pre-existing obligations involving the issue of Shares, the Company's authorised share capital has been increased from HK\$20,000,000 (divided into 10,000,000,000 Shares) to HK\$40,000,000 (divided into 20,000,000,000 Shares) by the creation of an additional 10,000,000,000 Shares, and such increase has been approved by the Shareholders at the New SGM.

### **CHANGE OF DIRECTORS**

With effect from 10 August 2016, (i) Mr. Bai Jinmin and Mr. Liang Yu resigned as executive Directors; (ii) Mr. Cheng Guoming resigned as an executive Director and the chief financial officer of the Company; and (iii) Mr. Ho King Fung, Eric resigned as a non-executive Director; while (i) Mr. Zhou Haijing has been appointed as an executive Director and the chief financial officer of the Company; and (ii) Mr. Zhang Qin, Mr. Yang Guang, Mr. Ji Gang and Mr. Zhang Wei have been appointed as non-executive Directors.

The key management team of the Group remains to be in place following 10 August 2016: Mr. Sun Ho continues to be the Chairman and the Chief Executive Officer of the Group, Mr. Bai Jinmin is responsible for the Group's daily operations as the Chief Operating Officer of the Group; Mr. Liang Yu is responsible for the Group's legal and compliance as a President of the Group; and Mr. Cheng Guoming is responsible for the Group's investment and global strategy as a President of the Group.

### **UPDATE ON THE SETTLEMENT OF PRC TAX LIABILITY**

As disclosed in the announcement of the Company dated 4 July 2016 (the “Special Deal and Connected Transaction Announcement”), it has come to the attention of the Company that the Group had, in the past, failed to withhold PRC individual income tax (“IIT”) that is payable under relevant PRC tax laws in respect of the exercise of share options granted by the Company to its PRC subsidiaries’ employees who are subject to PRC IIT (the “PRC Employees”) under the Share Option Schemes.

Since becoming aware of this non-compliance issue, the Company has adopted a policy with effect from 18 December 2015 to ensure that the IIT is properly collected by the Group from the PRC Employees as required by the relevant PRC tax laws in relation to the share options granted by the Company to the PRC Employees and exercised by such employees. Under the new policy, the PRC Employees have to pay any IIT payable upon the exercise of share options. However, given the Group’s prior practice, such policy does not apply retrospectively to any share options that had been exercised before the implementation of such policy.

During the period from 1 January 2011 (being approximately five years from the date of the Special Deal and Connected Transaction Announcement) to 17 December 2015 (being the day immediately before the new policy mentioned above took effect), the Company had issued a total of 118,678,603 Shares to a total of 37 PRC Employees (the “Relevant Employees”) upon exercise by such employees of the share options granted under the Share Option Schemes.

The Group had agreed an arrangement with the relevant PRC tax authorities for the settlement of the under-withheld IIT, where such under-withheld IIT was borne and settled by the Group on a grossed-up basis (the “Grossed-up Tax”) (which means the share option income received by the PRC Employees was regarded as net income and the settlement by the employer of the IIT constituted an employment benefit which, in itself, was a taxable employment benefit subject to IIT) (the “Tax Settlement”).

During the Nine-Month Period, for the purpose of the Tax Settlement, the Group used its internal cash resources (other than the proceeds received from the Subscription) to pay Grossed-up Tax totalling approximately RMB47.8 million (equivalent to approximately HK\$55.6 million).



The Tax Settlement has resulted in the release of the personal liability of the Relevant Employees under the applicable PRC tax laws in respect of their relevant under-withheld IIT (the “Release of Tax Liability of Relevant Employees”), and constitutes:

- (a) a non-exempt connected transaction for the Company in respect of those Relevant Employees who are “connected persons” of the Company (the “Connected Employees”) and is subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 20 of the GEM Listing Rules, as two of the Relevant Employees (namely, Mr. Bai Jinmin and Mr. Liang Yu) were former executive Directors before Completion and two of the Relevant Employees (namely, Mr. Yang Xinwei and Ms. Wang Liying) are currently or was, during the past 12 months preceding the date of the Special Deal and Connected Transaction Announcement, directors of a subsidiary of the Company (other than an insignificant subsidiary within the meaning of the GEM Listing Rules); and
- (b) a special deal of the Company under Rule 25 of the Takeovers Code (the “Special Deal”) in respect of those Relevant Employees who are Shareholders, as it confers a benefit on such Shareholders. The Special Deal requires (i) the consent of the Executive; (ii) the opinion of the independent financial adviser to the independent board committee of the Board and the independent Shareholders that the terms of the Special Deal are fair and reasonable; and (iii) the approval of the independent Shareholders by way of poll at the New SGM.

The Company has obtained the approval from independent Shareholders for the Release of Tax Liability of Relevant Employees who are Connected Employees and Shareholders at the New SGM. Further details of the Tax Settlement and the Release of Tax Liability of Relevant Employees can be found in the supplemental circular of the Company dated 14 July 2016.



## Financial Performance Review

Total revenue of the Group for the Nine-Month Period amounted to approximately HK\$149.8 million (2015: approximately HK\$177.8 million). Most of the revenue was derived from lottery games and systems, hardware, distribution and ancillary services in the PRC. The decrease in revenue for the Nine-Month Period of approximately 15.7% as compared to that for the same period in 2015 was mainly due to reduced sales of lottery hardware products during the Nine-Month Period. The supply of lottery hardware in the PRC is highly regulated with only a small number of approved suppliers. Revenue in this business typically exhibits an irregular pattern since not only are sales not on a commission basis but also the customer base is concentrated and the timing of orders from customers can be variable. Thus, while over longer periods of time, orders and revenues tend to be stable; in the short term, volatility can be seen.

During the Nine-Month Period, the gross profit margin percentage stood at approximately 26.8% (2015: approximately 22.7%). The slight increase was mainly attributable to a change in sales mix in the hardware division.

The Group's loss after tax decreased by approximately 51.1% for the Nine-Month Period to approximately HK\$53.9 million from approximately HK\$110.2 million in 2015. Such decrease was mainly attributable to the (i) gain from changes in fair value of contingent consideration payables of approximately HK\$112.4 million due to the remeasurements of the bonus options and deferred consideration under the Score Value Transaction since 31 December 2015; (ii) improvement of the gross profit margin; and (iii) decrease of the share-based payments by approximately HK\$4.4 million; but such loss was partially offset by the increase in selling and administrative expense by approximately HK\$58.3 million and such increase is due to payment of the PRC IIT of approximately HK\$55.6 million in respect of the exercise of share options granted by the Company under the Share Option Schemes to its PRC subsidiaries' employees who are subject to PRC IIT.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2016, 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 Shares:

Name of Director	Number of Shares			Approximate percentage held (Note 1)
	Personal interest	Corporate interest	Total	
Mr. Sun Ho	27,078,000	2,006,250,000 (Note 2)	2,033,328,000	19.39%
Mr. Zhou Hajing	-	-	-	0%
Mr. Zhang Qin	-	-	-	0%
Mr. Yang Guang	-	-	-	0%
Mr. Ji Gang	-	-	-	0%
Mr. Zhang Wei	-	-	-	0%
Ms. Monica Maria Nunes	1,375,000	-	1,375,000	0.01%
Mr. Feng Qing	-	-	-	0%
Dr. Gao Jack Qunyao	-	-	-	0%

Notes:

1. Based on a total of 10,485,783,770 Shares in issue as at 30 September 2016.
2. 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, the chairman, executive Director & chief executive officer ("CEO") of the Company, Mr. Sun was 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)				Outstanding as at 30 September 2016	Approximate percentage of issued share capital of the Company (Note 1)
				Outstanding as at 1 January 2016	Granted during the Nine-Month Period	Exercised during the Nine-Month Period	Lapsed during the Nine-Month Period		
Mr. Bai Jinmin (resigned on 10 August 2016)	21 December 2011	0.2900	21 December 2015 – 20 December 2016	5,316,000	–	(5,316,000)	–	–	0%
	17 August 2012	0.1006	17 August 2016 – 16 August 2017	875,000	–	(875,000)	–	–	0%
	9 January 2013	0.4250	9 January 2016 – 8 January 2018	4,000,000	–	(2,000,000)	–	2,000,000	0.02%
	21 January 2014	1.3100	21 January 2015 – 20 January 2019	10,000,000	–	(5,000,000)	–	5,000,000	0.05%
Mr. Liang Yu (resigned on 10 August 2016)	17 August 2012	0.1006	17 August 2016 – 16 August 2017	875,000	–	–	–	875,000	0.01%
	9 January 2013	0.4250	9 January 2016 – 8 January 2018	4,000,000	–	–	–	4,000,000	0.04%
	21 January 2014	1.3100	21 January 2015 – 20 January 2019	5,000,000	–	(1,250,000)	–	3,750,000	0.04%
Mr. Cheng Guoming (resigned on 10 August 2016)	1 June 2015	0.8580	1 June 2016 – 31 May 2020	44,944,800	–	–	–	44,944,800	0.43%
Mr. Ho King Fung, Eric (resigned on 10 August 2016)	23 May 2013	0.4890	23 May 2015 – 22 May 2018	31,931,883	–	(21,287,922)	(10,643,961)	–	0%
Ms. Monica Maria Nunes	20 June 2013	0.4740	20 June 2015 – 19 June 2018	1,125,000	–	(750,000)	–	375,000	0.004%
	21 January 2014	1.3100	21 January 2015 – 20 January 2019	500,000	–	(250,000)	–	250,000	0.002%

Number of underlying Shares entitled  
(in respect of share options of the Company)

Name of Director	Date of grant	Exercise price per Share (HK\$)	Exercisable period	Number of underlying Shares entitled				Outstanding as at 30 September 2016	Approximate percentage of issued share capital of the Company (Note 1)
				Outstanding as at 1 January 2016	Granted during the Nine-Month Period	Exercised during the Nine-Month Period	Lapsed during the Nine-Month Period		
Mr. Feng Qing	1 June 2015	0.8580	1 June 2016 – 31 May 2020	1,500,000	-	-	-	1,500,000	0.01%
Dr. Gao Jack Qunqiao	1 June 2015	0.8580	1 June 2016 – 31 May 2020	1,500,000	-	-	-	1,500,000	0.01%

*Notes:*

1. Based on a total of 10,485,783,770 Shares in issue as at 30 September 2016.
2. A portion of the option representing 25% of the total underlying Shares entitled under such option when it was initially granted shall be vested in the grantee of the option in each year 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.

- c. Long positions in shares and underlying shares of Alibaba Group Holding Limited (“Alibaba Holding”), an associated corporation of the Company within the meaning of Part XV of the SFO:

<b>Name of Director</b>	<b>Nature of interests</b>	<b>Number of shares/ underlying shares held</b>	<b>Percentage of issued shares of Alibaba Holding</b>
Mr. Zhou Haijing	Beneficial and equity derivative interests	31,200 (Note 1)	0.001%
Mr. Zhang Qin	Beneficial and equity derivative interests	50,000 (Note 2)	0.002%
Mr. Yang Guang	Beneficial and equity derivative interests	28,045 (Note 3)	0.001%
Mr. Ji Gang	Beneficial and equity derivative interests	77,269 (Note 4)	0.003%

Notes:

1. It represents 20,000 ordinary shares and 11,200 restricted share units beneficially held by Mr. Zhou Haijing.
2. It represents 20,000 ordinary shares and 30,000 restricted share units beneficially held by Mr. Zhang Qin.
3. It represents 8,920 ordinary shares and 19,125 restricted share units beneficially held by Mr. Yang Guang.
4. It represents 22,219 ordinary shares and 55,050 restricted share units beneficially held by Mr. Ji Gang.

Save as disclosed above, as at 30 September 2016, none of the Directors or 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 (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, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2016, so far as was known to the Directors or chief executive of the Company, the following persons (not being Directors or chief executive 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 issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares entitled	Total (number of Shares)	Approximate percentage of issued share capital of the Company (Note 1)
Ali Fortune Investment Holding Limited (Note 2 and 8)	Beneficial owner	5,502,723,993	1,736,693,695	7,239,417,688	69.04%
Alibaba Investment Limited (Note 2)	Interest of controlled corporation	5,502,723,993	1,736,693,695	7,239,417,688 (Note 9)	69.04%
API Holdings Limited (Note 2)	Interest of controlled corporation	5,502,723,993	1,736,693,695	7,239,417,688 (Note 9)	69.04%
Alibaba Group Holding Limited (Note 3)	Interest of controlled corporation	5,502,723,993	1,736,693,695	7,239,417,688 (Note 9)	69.04%
API (Hong Kong) Investment Limited (Note 4)	Interest of controlled corporation	5,502,723,993	1,736,693,695	7,239,417,688 (Note 9)	69.04%
Shanghai Yunju Venture Capital Investment Co., Ltd. (formerly known as Shanghai Yunju Investment Management Co., Ltd. (Note 5)	Interest of controlled corporation	5,502,723,993	1,736,693,695	7,239,417,688 (Note 9)	69.04%
Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (Note 6)	Interest of controlled corporation	5,502,723,993	1,736,693,695	7,239,417,688 (Note 9)	69.04%
Hangzhou Yunbo Investment Consultancy Co., Ltd. (Note 7)	Interest of controlled corporation	5,502,723,993	1,736,693,695	7,239,417,688 (Note 9)	69.04%
Mr. Ma Yun (Note 7)	Interest of controlled corporation	5,502,723,993	1,736,693,695	7,239,417,688 (Note 9)	69.04%
MAXPROFIT GLOBAL INC (Note 10)	Beneficial owner	2,006,250,000	–	2,006,250,000	19.13%

*Notes:*

1. Based on a total of 10,485,783,770 Shares in issue as at 30 September 2016.
2. Alibaba Investment Limited (“AIL”) and API Holdings Limited (“API Holdings”) hold 60% and 40% of the issued share capital of Ali Fortune Investment Holding Limited (“Ali Fortune”), respectively.
3. Alibaba Group Holding Limited holds 100% of the issued share capital of AIL.
4. API (Hong Kong) Investment Limited holds 100% of the issued share capital of API Holdings.
5. Shanghai Yunju Venture Capital Investment Co., Ltd. (formerly known as Shanghai Yunju Investment Management Co., Ltd.) (“Shanghai Yunju”) holds 100% of the issued share capital of API (Hong Kong) Investment Limited.
6. Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (“Ant Financial”) holds 100% of the equity interests in Shanghai Yunju. Hangzhou Junhan Equity Investment Partnership (Limited Partnership) (“Junhan”) and Hangzhou Junao Equity Investment Partnership (Limited Partnership) (“Junao”) hold approximately 42.28% and 34.15% of the equity interests in Ant Financial, respectively.
7. Hangzhou Yunbo Investment Consultancy Co., Ltd. (“Yunbo”) is the general partner of both Junhan and Junao, and is wholly-owned by Mr. Ma Yun.
8. Ali Fortune holds outstanding convertible bonds of the Company in the aggregate principal amount of HK\$507,234,928 and the maximum number of conversion shares that would be issued upon full conversion of such outstanding convertible bonds at the then adjusted conversion price of HK\$0.2921 per conversion share as at 30 September 2016 was 1,736,693,695. The allotment and issue of the Subscription Shares and the Conversion Shares under a specific mandate, together with the Whitewash Waiver, were approved by the independent Shareholders at the New SGM.

9. Each of AIL, Alibaba Group Holding Limited, API Holdings, API (Hong Kong) Investment Limited, Shanghai Yunju, Ant Financial, Junhan, Junao, Yunbo, and Mr. Ma Yun are taken to be interested in an aggregate of 7,239,417,688 Shares by virtue of Part XV of the SFO.
10. As disclosed in the section headed "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES" 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 September 2016, 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 5% or more of the issued voting shares of any other member of the Group or held any option in respect of such shares and recorded in the register kept by the Company pursuant to section 336 of the SFO.

### **INTERESTS OF OTHER PERSONS**

As at 30 September 2016, 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.

### **INTERESTS IN COMPETING BUSINESS**

During the Nine-Month Period, none of the Directors or the controlling shareholder of the Company had an interest in a business, which competes or might compete with the business of the Group.



### **CHANGE OF COMPANY SECRETARY, AUTHORISED REPRESENTATIVE, MEMBER OF CORPORATE GOVERNANCE COMMITTEE AND RISK MANAGEMENT AND INTERNAL CONTROL COMMITTEE**

During the Nine-Month Period, Ms. Lo Kei Chi resigned on 26 September 2016, and Mr. Ng Lok Ming was appointed on the same day, as company secretary of the Company, an authorised representative and a member of each of the corporate governance committee and the risk management and internal control committee of the Company.

### **AUDIT COMMITTEE**

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely, Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao. The unaudited consolidated financial statements of the Group for the Nine-Month Period have been reviewed and commented on by the Audit Committee.

### **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 Nine-Month Period.

### **SHARE OPTION SCHEMES**

During the Nine-Month Period, no options were granted by the Company pursuant to the Share Option Schemes. During the Nine-Month Period, options for 153,526,790 Shares were exercised and options for 15,531,461 Shares were lapsed. As at 30 September 2016, options for 533,040,774 Shares remained outstanding.

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

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

### **DEFINITIONS**

In this report, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

“Board”	the board of Directors;
“Company” or “AGTech”	AGTech Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on GEM;
“Consultant Options”	the options granted to consultants of the Company to subscribe for up to 354,210,170 Shares as at the date hereof pursuant to the Share Option Schemes;
“Director(s)”	the director(s) of the Company;
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director;
“GEM”	the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM;
“GOT”	北京亞博高騰科技有限公司 (Beijing AGTech GOT Technology Co., Ltd.*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company;

“Group”	the Company and its subsidiaries;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Macau”	the Macau Special Administrative Region of the PRC;
“MOF”	the Ministry of Finance of China;
“New SGM”	the new special general meeting of the Company held on 30 July 2016;
“NSLAC”	the National Sports Lottery Administration Centre of the PRC;
“PRC” or “China”	the People’s Republic of China which, for the purpose of this report, excludes Hong Kong, Macau and Taiwan;
“Rainwood Options”	the options granted to Rainwood Resources Limited to subscribe for up to 212,879,224 Shares at an exercise price of HK\$0.4 per Share (subject to customary adjustment in the event of capitalisation issue) at any time during a 3-year period from 21 May 2013, which were exercised in full on 16 March 2016;
“Score Value”	Score Value Limited which is an indirect wholly-owned subsidiary of the Company;

“Score Value Transaction”	the acquisition of the entire equity interest in Score Value by the Company as contemplated under the agreement dated 17 November 2014 entered into between the Company, Silvercreek Technology Holdings Limited (a wholly-owned subsidiary of the Company) as the purchaser, Score Value as the target, and vendors of Score Value, pursuant to which, among other things, (i) the vendors of Score Value may be granted bonus options to subscribe for up to 166,666,666 Shares at a subscription price of HK\$1.8 per Share and such options are contingent upon certain performance targets; and (ii) the vendors of Score Value may be issued up to 135,135,135 Shares as part of the deferred consideration for the acquisition if certain performance targets are achieved;
“Share(s)”	ordinary share(s) of HK\$0.002 each in the share capital of the Company;
“Shareholder(s)”	holder(s) of the Share(s);
“Share Option Schemes”	the share option schemes of the Company adopted on 18 November 2004 and 23 December 2014 respectively;
“Sports Lottery”	the national sports lottery of China;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time);

“Welfare Lottery”	the national welfare lottery of China;
“Whitewash Circular”	the circular of the Company dated 25 May 2016 in respect of, among other things, the Subscription and the Whitewash Waiver;
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscriber to make a mandatory general offer for all of the Shares not already owned or agreed to be acquired by the Subscriber or parties acting in concert with it which would otherwise arise as a result of (i) the allotment and issue of the Subscription Shares at Completion; and/or (ii) the allotment and issue of the Conversion Shares pursuant to the terms and conditions of the Convertible Bonds;
“Zoom Read”	深圳中林瑞德科技有限公司 (Shenzhen Zoom Read Tech Co., Ltd*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;

“RMB” Renminbi, the lawful currency of the PRC; and

“%” per cent.

\* *The English translation of the Chinese company name is included for reference only and should not be regarded as the official English translation of such Chinese company name.*

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

Hong Kong, 8 November 2016

*As at the date of this report, the Board comprises (i) Mr. Sun Ho and Mr. Zhou Haijing as executive Directors; (ii) Mr. Zhang Qin, Mr. Yang Guang, Mr. Ji Gang and Mr. Zhang Wei as non-executive Directors; and (iii) Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qunyao as independent non-executive Directors.*

*This report will remain on the “Latest Company Announcements” page of the GEM website operated by the Stock Exchange at [www.hkgem.com](http://www.hkgem.com) for at least seven days from the day of its posting and will be published on the website of the Company at [www.agtech.com](http://www.agtech.com).*