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*This announcement, 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 announcement is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this announcement misleading.*



## **AGTech Holdings Limited**

**亞博科技控股有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 8279)**

### **FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **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.**

**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.**

\* For identification purpose only

## **FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED 31 DECEMBER 2011**

- Total revenue of the Group for the year under review amounted to approximately HK\$111.3 million (2010: approximately HK\$105.1 million). 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.
- The Group recorded a profit from business operations of approximately HK\$7.3 million (2010: approximately HK\$0.7 million). The gross profit percentage for the year under review stood at approximately 66.0%, an increase from the gross profit percentage of approximately 61.2% for the year ended 31 December 2010.
- Loss attributable to owners of the Company for the year under review amounted to approximately HK\$43.3 million, primarily due to (i) the share-based payments (totalling approximately HK\$7.3 million) 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\$42.7 million).
- The Board does not recommend the payment of a final dividend for the year.

## RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2011, together with the comparative audited figures for the year ended 31 December 2010 as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2011*

|                                                                                                                     | <i>Notes</i> | <b>2011</b><br><b>HK\$</b> | 2010<br><i>HK\$</i> |
|---------------------------------------------------------------------------------------------------------------------|--------------|----------------------------|---------------------|
| Revenue                                                                                                             | 4            | <b>111,340,140</b>         | 105,143,580         |
| Cost of sales and services                                                                                          |              | <b>(37,889,170)</b>        | (40,782,791)        |
| Gross profit                                                                                                        |              | <b>73,450,970</b>          | 64,360,789          |
| Investment and other income                                                                                         |              | <b>2,791,612</b>           | 1,102,253           |
| Other gains and losses                                                                                              |              | <b>(2,527,850)</b>         | 970,582             |
| Selling and administrative expenses                                                                                 |              | <b>(72,112,607)</b>        | (70,846,906)        |
| Share of profits of an associate                                                                                    |              | <b>5,736,740</b>           | 5,153,835           |
| Profit from business operations                                                                                     |              | <b>7,338,865</b>           | 740,553             |
| Gain on acquisition of additional interest<br>in an associate                                                       |              | <b>2,700,624</b>           | –                   |
| Share-based payments                                                                                                |              | <b>(7,320,587)</b>         | (6,122,251)         |
| Net foreign exchange loss                                                                                           |              | <b>(341,338)</b>           | (74,700)            |
| Amortisation of other intangible assets                                                                             | 10           | <b>(42,714,031)</b>        | (40,904,060)        |
| Finance costs                                                                                                       |              | <b>(3,845,390)</b>         | –                   |
| Loss before tax                                                                                                     |              | <b>(44,181,857)</b>        | (46,360,458)        |
| Income tax (expense)/credit                                                                                         | 6            | <b>(1,490,909)</b>         | 5,345,881           |
| <b>Loss for the year</b>                                                                                            | 7            | <b>(45,672,766)</b>        | (41,014,577)        |
| <b>Other comprehensive income, net of income tax</b>                                                                |              |                            |                     |
| Translation differences on translating foreign operations                                                           |              | <b>31,469,483</b>          | 34,680,218          |
| Reclassification adjustment on translation<br>difference upon acquisition of additional<br>interest in an associate |              | <b>(3,233,944)</b>         | –                   |
| Translation differences released upon disposals<br>of subsidiaries                                                  |              | <b>2,527,850</b>           | 353,719             |
| Share of other comprehensive income of an associate                                                                 |              | <b>1,682,953</b>           | 1,550,991           |
| Other comprehensive income for the year,<br>net of income tax                                                       |              | <b>32,446,342</b>          | 36,584,928          |
| <b>Total comprehensive income for the year</b>                                                                      |              | <b>(13,226,424)</b>        | (4,429,649)         |

|                                             | <i>Notes</i> | <b>2011</b><br><b>HK\$</b> | 2010<br><b>HK\$</b>        |
|---------------------------------------------|--------------|----------------------------|----------------------------|
| Loss attributable to:                       |              |                            |                            |
| Owners of the Company                       |              | <b>(43,248,756)</b>        | (37,798,646)               |
| Non-controlling interests                   |              | <b>(2,424,010)</b>         | (3,215,931)                |
|                                             |              | <b><u>(45,672,766)</u></b> | <b><u>(41,014,577)</u></b> |
| Total comprehensive income attributable to: |              |                            |                            |
| Owners of the Company                       |              | <b>(10,903,127)</b>        | (1,244,408)                |
| Non-controlling interests                   |              | <b>(2,323,297)</b>         | (3,185,241)                |
|                                             |              | <b><u>(13,226,424)</u></b> | <b><u>(4,429,649)</u></b>  |
| <b>Loss per Share</b>                       |              |                            |                            |
| Basic and diluted                           | 8            | <b><u>HK1.17 cents</u></b> | <b><u>HK1.04 cents</u></b> |

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 31 December 2011*

|                                              | <i>Notes</i> | <b>2011<br/>HK\$</b> | <b>2010<br/>HK\$</b> |
|----------------------------------------------|--------------|----------------------|----------------------|
| <b>Non-current assets</b>                    |              |                      |                      |
| Property, plant and equipment                |              | <b>60,645,058</b>    | 15,474,499           |
| Goodwill                                     | 9            | <b>767,997,278</b>   | 688,498,150          |
| Other intangible assets                      | 10           | <b>22,413,061</b>    | 62,864,771           |
| Interest in an associate                     |              | –                    | 52,124,417           |
| Deposits and prepayments                     |              | <b>24,600,112</b>    | 33,358,991           |
| Other assets                                 |              | <b>1,736,660</b>     | 1,676,594            |
| Deferred tax assets                          | 14           | <b>3,138,691</b>     | –                    |
|                                              |              | <b>880,530,860</b>   | 853,997,422          |
| <b>Current assets</b>                        |              |                      |                      |
| Inventories                                  |              | <b>24,226,521</b>    | –                    |
| Trade receivables                            | 11           | <b>81,015,011</b>    | 37,595,399           |
| Other receivables, deposits and prepayments  |              | <b>73,393,994</b>    | 54,741,888           |
| Pledged bank deposits                        |              | <b>26,612,786</b>    | –                    |
| Bank balances and cash                       | 12           | <b>132,378,464</b>   | 140,867,489          |
|                                              |              | <b>337,626,776</b>   | 233,204,776          |
| <b>Current liabilities</b>                   |              |                      |                      |
| Trade payables                               | 13           | <b>14,590,727</b>    | 6,444,817            |
| Accruals and other payables                  |              | <b>25,572,307</b>    | 20,011,359           |
| Amount due to an associate                   |              | –                    | 1,285,310            |
| Secured bank borrowing                       |              | <b>61,150,000</b>    | –                    |
| Current tax liabilities                      |              | <b>4,695,301</b>     | 2,560,234            |
|                                              |              | <b>106,008,335</b>   | 30,301,720           |
| <b>Net current assets</b>                    |              | <b>231,618,441</b>   | 202,903,056          |
| <b>Total assets less current liabilities</b> |              | <b>1,112,149,301</b> | 1,056,900,478        |
| <b>Non-current liabilities</b>               |              |                      |                      |
| Provision for warranties                     |              | <b>20,707,471</b>    | –                    |
| Deferred tax liabilities                     | 14           | <b>10,833,110</b>    | 14,723,425           |
|                                              |              | <b>31,540,581</b>    | 14,723,425           |
| <b>Net assets</b>                            |              | <b>1,080,608,720</b> | 1,042,177,053        |
| <b>Capital and reserves</b>                  |              |                      |                      |
| Share capital                                |              | <b>7,687,907</b>     | 7,356,321            |
| Reserves                                     |              | <b>1,072,319,472</b> | 1,031,896,094        |
| Equity attributable to owners of the Company |              | <b>1,080,007,379</b> | 1,039,252,415        |
| Non-controlling interests                    |              | <b>601,341</b>       | 2,924,638            |
| <b>Total equity</b>                          |              | <b>1,080,608,720</b> | 1,042,177,053        |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

|                                                     | Attributable to owners of the Company |                       |                               |                                         |                          |                                           |                            | Attributable to non-controlling interests |                | Total                |
|-----------------------------------------------------|---------------------------------------|-----------------------|-------------------------------|-----------------------------------------|--------------------------|-------------------------------------------|----------------------------|-------------------------------------------|----------------|----------------------|
|                                                     | Share capital<br>HK\$                 | Share premium<br>HK\$ | Share options reserve<br>HK\$ | Statutory reserve<br>HK\$<br>(Note (a)) | Exchange reserve<br>HK\$ | Contributed surplus<br>HK\$<br>(Note (b)) | Accumulated losses<br>HK\$ | Subtotal<br>HK\$                          | HK\$           |                      |
| Balance at 1 January 2010                           | 7,163,670                             | 999,549,566           | 237,650,324                   | 1,157,470                               | 89,126,794               | 47,191,476                                | (379,356,737)              | 1,002,482,563                             | 3,059,879      | 1,005,542,442        |
| Loss for the year                                   | -                                     | -                     | -                             | -                                       | -                        | -                                         | (37,798,646)               | (37,798,646)                              | (3,215,931)    | (41,014,577)         |
| Other comprehensive income for the year             | -                                     | -                     | -                             | -                                       | 36,554,238               | -                                         | -                          | 36,554,238                                | 30,690         | 36,584,928           |
| Total comprehensive income for the year             | -                                     | -                     | -                             | -                                       | 36,554,238               | -                                         | (37,798,646)               | (1,244,408)                               | (3,185,241)    | (4,429,649)          |
| Recognition of equity-settled share-based payments  | -                                     | -                     | 6,122,251                     | -                                       | -                        | -                                         | -                          | 6,122,251                                 | -              | 6,122,251            |
| Shares issued on exercise of part of share options  | 76,863                                | 53,721,556            | (45,353,480)                  | -                                       | -                        | -                                         | -                          | 8,444,939                                 | -              | 8,444,939            |
| Lapse of share options                              | -                                     | -                     | (10,225,771)                  | -                                       | -                        | -                                         | 10,225,771                 | -                                         | -              | -                    |
| Capital contribution from non-controlling interests | -                                     | -                     | -                             | -                                       | -                        | -                                         | -                          | -                                         | 3,050,000      | 3,050,000            |
| Issue of Shares upon acquisition of subsidiaries    | 115,788                               | 23,331,282            | -                             | -                                       | -                        | -                                         | -                          | 23,447,070                                | -              | 23,447,070           |
| Transfer from accumulated losses                    | -                                     | -                     | -                             | 1,977,435                               | -                        | -                                         | (1,977,435)                | -                                         | -              | -                    |
| Balance at 31 December 2010 and 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 year                                   | -                                     | -                     | -                             | -                                       | -                        | -                                         | (43,248,756)               | (43,248,756)                              | (2,424,010)    | (45,672,766)         |
| Other comprehensive income for the year             | -                                     | -                     | -                             | -                                       | 32,345,629               | -                                         | -                          | 32,345,629                                | 100,713        | 32,446,342           |
| Total comprehensive income for the year             | -                                     | -                     | -                             | -                                       | 32,345,629               | -                                         | (43,248,756)               | (10,903,127)                              | (2,323,297)    | (13,226,424)         |
| Recognition of equity-settled share-based payments  | -                                     | -                     | 7,320,587                     | -                                       | -                        | -                                         | -                          | 7,320,587                                 | -              | 7,320,587            |
| Shares issued on exercise of part of share options  | 71,586                                | 61,812,523            | (53,946,605)                  | -                                       | -                        | -                                         | -                          | 7,937,504                                 | -              | 7,937,504            |
| Lapse of share options                              | -                                     | -                     | (9,179,266)                   | -                                       | -                        | -                                         | 9,179,266                  | -                                         | -              | -                    |
| Issue of Shares upon acquisition of subsidiaries    | 260,000                               | 36,140,000            | -                             | -                                       | -                        | -                                         | -                          | 36,400,000                                | -              | 36,400,000           |
| Transfer from accumulated losses                    | -                                     | -                     | -                             | 2,864,421                               | -                        | -                                         | (2,864,421)                | -                                         | -              | -                    |
| Balance at 31 December 2011                         | <u>7,687,907</u>                      | <u>1,174,554,927</u>  | <u>132,388,040</u>            | <u>5,999,326</u>                        | <u>158,026,661</u>       | <u>47,191,476</u>                         | <u>(445,840,958)</u>       | <u>1,080,007,379</u>                      | <u>601,341</u> | <u>1,080,608,720</u> |

## Notes:

- (a) In accordance with the statutory requirements in the PRC, subsidiaries of the Company registered in the PRC are required to transfer a certain percentage of their annual net income from retained profits to statutory reserve. The statutory reserve is not distributable.
- (b) The contributed surplus of the Group represents the transfer from the share premium account in a prior year.

## NOTES:

### 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its issued Shares have been listed on GEM.

At 31 December 2011, the Directors regard MAXPROFIT GLOBAL INC, a private limited company incorporated in the British Virgin Islands (“BVI”), as the immediate and ultimate holding company of the Company.

The Company is an investment holding company and its principal subsidiaries are mainly engaged in provision of sports lottery management and marketing consultancy services and gaming technologies (game software, systems, hardware and terminals) business in the PRC.

The consolidated financial statements are presented in HK\$. The functional currency of the Company is RMB. As the Company is listed in Hong Kong, the Directors consider that it is appropriate to present the consolidated financial statements in HK\$.

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

In the current year, the Group has applied all of the new and revised standards, amendments and interpretations (the “new and revised HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for annual periods beginning on or after 1 January 2011.

|                      |                                                                                   |
|----------------------|-----------------------------------------------------------------------------------|
| HKFRS (Amendments)   | Improvements to HKFRS 2010                                                        |
| HKFRS 1 (Amendments) | Limited Exemption from Comparative HKFRS 7<br>Disclosures for First-time Adopters |
| HKAS 24 (Revised)    | Related Party Disclosures                                                         |
| HKAS 32 (Amendments) | Classification of Rights Issues                                                   |
| HK(IFRIC) – Int 14   | Prepayments of a Minimum Funding Requirements                                     |
| HK(IFRIC) – Int 19   | Extinguishing Financial Liabilities with Equity Instruments                       |

The adoption of the new and revised HKFRS has no material effect on the consolidated financial statements of the Group for the current or prior years.

The Group has not early applied the following new and revised HKFRS that have been issued but are not yet effective:

|                                  |                                                                                       |
|----------------------------------|---------------------------------------------------------------------------------------|
| HKFRS 1 (Amendments)             | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup> |
| HKFRS 7 (Amendments)             | Disclosures – Transfers of Financial Assets <sup>1</sup>                              |
| HKFRS 7 (Amendments)             | Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>4</sup>      |
| HKFRS 9 and HKFRS 7 (Amendments) | Mandatory Effective Date of HKFRS 9 and Transition Disclosure <sup>6</sup>            |
| HKFRS 9                          | Financial Instruments <sup>6</sup>                                                    |
| HKFRS 10                         | Consolidated Financial Statements <sup>4</sup>                                        |
| HKFRS 11                         | Joint Arrangements <sup>4</sup>                                                       |
| HKFRS 12                         | Disclosure of Interests in Other Entities <sup>4</sup>                                |
| HKFRS 13                         | Fair Value Measurement <sup>4</sup>                                                   |
| HKAS 1 (Amendments)              | Presentation of Items of Other Comprehensive Income <sup>3</sup>                      |
| HKAS 12 (Amendments)             | Deferred Tax: Recovery of Underlying Assets <sup>2</sup>                              |
| HKAS 32 (Amendments)             | Presentation – Offsetting Financial Assets and Financial Liabilities <sup>5</sup>     |
| HKAS 19 (2011)                   | Employee Benefits <sup>4</sup>                                                        |
| HKAS 27 (2011)                   | Separate Financial Statements <sup>4</sup>                                            |
| HKAS 28 (2011)                   | Investments in Associates and Joint Ventures <sup>4</sup>                             |
| HK(IFRIC) – Int 20               | Stripping Costs in the Production Phase of a Surface Mine <sup>4</sup>                |

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2011.
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2012.
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2012.
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2013.
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2014.
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The Directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 10 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided that HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011) are applied early at the same time.

The Directors anticipate that HKFRS 10 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of HKFRS 10 may have significant impact on amounts reported in the consolidated financial statements. However, the Directors have not yet performed a detailed analysis of the impact of the application of HKFRS 10 and hence have not yet quantified the extent of the impact.



HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRS require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosures requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

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

The Group is in the process of assessing the impact of other new and revised HKFRS on the financial performance and financial position of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRS issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### 4. REVENUE

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 PRC for the year, and is analysed as follows:

|                                                                                            | 2011<br>HK\$       | 2010<br>HK\$       |
|--------------------------------------------------------------------------------------------|--------------------|--------------------|
| Provision of sports lottery management and marketing consultancy services                  | 86,038,208         | 105,143,580        |
| Provision of gaming technologies (game software, systems, hardware and terminals) business | 25,301,932         | —                  |
|                                                                                            | <u>111,340,140</u> | <u>105,143,580</u> |

## 5. SEGMENT INFORMATION

The Group's operating segments are determined based on information reported to the chief operating decision maker (the "CODM"), being the Directors, for the purpose of resources allocation and performance assessment. In previous years, (i) lottery information technology solutions – provision of lottery advisory service to authorised operator of lottery in the PRC ("Information technology solutions") and (ii) operation for the Group's sports lottery management and marketing consultancy services and supply of sports lottery sales terminals (and accessories) and sports and media business – provision of management and marketing consultancy services to SLACs and authorised operators of sports lottery, as well as supply of sports lottery sales terminals (and accessories) to the SLACs for certain municipality and provinces and sports and media business in the PRC ("Consultancy services") were reported to the CODM as stand-alone business units and constituted separate operating segments. Following a change in the Group's operating and reporting structure, starting from the year 2011, such business activities are combined into a sole operating segment before being reported to the CODM. Accordingly, the CODM now reviews the Group's internal reporting based on one sole operating segment (as a professional service provider in China's sports lottery market).

Additional disclosure in relation to segment information is not presented as the Directors assess the performance of the sole operating segment identified based on the consistent information as disclosed in the consolidated financial statements.

The total net segment income is equivalent to total comprehensive income for the year as shown in the consolidated statement of comprehensive income and the total segment assets and total segment liabilities are equivalent to total assets and total liabilities as shown in the consolidated statement of financial position.

### Geographical information

The Group's operations are located in the PRC.

The Group's revenue from external customers and information about its non-current assets\* by geographical locations are detailed below:

|           | Revenue from<br>external customers |                    | Non-current assets* |                    |
|-----------|------------------------------------|--------------------|---------------------|--------------------|
|           | 2011<br>HK\$                       | 2010<br>HK\$       | 2011<br>HK\$        | 2010<br>HK\$       |
| PRC       | 111,340,140                        | 105,143,580        | 872,216,613         | 846,374,740        |
| Hong Kong | –                                  | –                  | 5,175,556           | 7,622,682          |
|           | <u>111,340,140</u>                 | <u>105,143,580</u> | <u>877,392,169</u>  | <u>853,997,422</u> |

\* Non-current assets excluding deferred tax assets.

### Information about major customers

Revenue from customers of corresponding years contributing over 10% of total revenue of the Group is as follows:

|            | 2011<br>HK\$      | 2010<br>HK\$      |
|------------|-------------------|-------------------|
| Customer A | 54,373,614        | 79,908,833        |
| Customer B | 18,610,285        | N/A <sup>1</sup>  |
| Customer C | 11,474,602        | N/A <sup>1</sup>  |
|            | <u>84,458,501</u> | <u>79,908,833</u> |

<sup>1</sup> The corresponding revenue did not contribute over 10% of the total revenue of the Group in the prior year.

## 6. INCOME TAX EXPENSE/(CREDIT)

|                                               | 2011<br>HK\$     | 2010<br>HK\$       |
|-----------------------------------------------|------------------|--------------------|
| Current tax:                                  |                  |                    |
| – PRC Enterprise Income Tax                   | 10,128,252       | 4,524,833          |
| Underprovision of current tax in prior years: |                  |                    |
| – PRC Enterprise Income Tax                   | 511,004          | 244,817            |
| Deferred tax: (Note 14)                       |                  |                    |
| – Current year                                | (9,148,347)      | (10,115,531)       |
| Total income tax recognised in profit or loss | <u>1,490,909</u> | <u>(5,345,881)</u> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

No provision for Hong Kong profits tax has been made as there were no assessable profits arising in or derived from Hong Kong for the year ended 31 December 2011 (2010: nil).

北京長城高騰信息產品有限公司 (Beijing Greatwall GOT Information Products Co., Ltd.\*) (“GOT”) is subject to PRC Enterprise Income Tax at 15% as GOT is recognised as an Advanced and New Technology Enterprise under the PRC Enterprise Income Tax Law. Other PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years.

The tax charge for the year can be reconciled to loss before tax per the consolidated statement of comprehensive income as follows:

|                                                         | 2011<br>HK\$        | 2010<br>HK\$        |
|---------------------------------------------------------|---------------------|---------------------|
| Loss before tax                                         | <u>(44,181,857)</u> | <u>(46,360,458)</u> |
| Tax at domestic income tax rate                         | (8,438,260)         | (8,645,796)         |
| Tax effect of expenses not deductible for tax purpose   | 16,093,898          | 13,085,290          |
| Tax effect of income not taxable for tax purpose        | (1,456,989)         | (6,276,980)         |
| Tax effect of unrecognised estimated tax losses         | 3,929,603           | 6,362,319           |
| Underprovision in prior years                           | 511,004             | 244,817             |
| Deferred taxation arising from dividend withholding tax | 1,225,080           | –                   |
| Reversal of temporary differences                       | <u>(10,373,427)</u> | <u>(10,115,531)</u> |
|                                                         | <u>1,490,909</u>    | <u>(5,345,881)</u>  |

\* For identification purpose only

## 7. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

|                                                                                        | 2011<br>HK\$      | 2010<br>HK\$      |
|----------------------------------------------------------------------------------------|-------------------|-------------------|
| Auditors' remuneration                                                                 | 950,000           | 800,000           |
| Cost of inventories recognised as expenses<br>(included in cost of sales and services) | 11,663,678        | –                 |
| Provision for warranties (included in cost of sales and services)                      | 1,287,437         | –                 |
| Depreciation of property, plant and equipment                                          | 6,671,956         | 7,283,133         |
| Net losses on disposals of property, plant and equipment                               | 47,440            | 427,409           |
| Operating lease rentals in respect of rented premises                                  | 5,176,044         | 5,281,550         |
| Research and development costs expensed as incurred                                    | 3,805,013         | 3,115,012         |
| Impairment losses recognised on other receivables, deposits and prepayments            | 1,955,370         | –                 |
| Net losses on disposals of subsidiaries                                                | 2,527,850         | 353,719           |
|                                                                                        | <u>34,878,925</u> | <u>38,491,856</u> |
| Employee benefit expense, including Directors' remunerations:                          |                   |                   |
| Fees, salaries, discretionary bonuses and other benefits                               | 27,759,970        | 27,991,659        |
| Share-based payments                                                                   | 3,516,476         | 7,660,710         |
| Social security costs                                                                  | 3,469,048         | 2,714,773         |
| Retirement benefit schemes contributions                                               | 133,431           | 124,714           |
|                                                                                        | <u>34,878,925</u> | <u>38,491,856</u> |

## 8. LOSS PER SHARE

The calculation of basic and diluted loss per Share is based on the loss attributable to owners of the Company for the year ended 31 December 2011 of HK\$43,248,756 (2010: HK\$37,798,646) and the weighted average number of 3,695,841,700 Shares (2010: 3,635,773,860 Shares) in issue during the year ended 31 December 2011.

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 of both current and prior years.

## 9. GOODWILL

|                                                                                    | HK\$               |
|------------------------------------------------------------------------------------|--------------------|
| <b>COST</b>                                                                        |                    |
| Balance at 1 January 2010                                                          | 663,365,373        |
| Effect of foreign currency exchange differences                                    | 25,132,777         |
|                                                                                    | <u>688,498,150</u> |
| Balance at 31 December 2010 and 1 January 2011                                     | 688,498,150        |
| Additional amounts recognised from business combinations occurring during the year | 54,846,990         |
| Effect of foreign currency exchange differences                                    | 24,652,138         |
|                                                                                    | <u>767,997,278</u> |
| Balance at 31 December 2011                                                        | <u>767,997,278</u> |
| <b>CARRYING AMOUNTS</b>                                                            |                    |
| Balance at 31 December 2011                                                        | <u>767,997,278</u> |
| Balance at 31 December 2010                                                        | <u>688,498,150</u> |

## 10. OTHER INTANGIBLE ASSETS

|                                                    | Club<br>membership<br>HK\$ | Capitalised<br>development<br>costs<br>HK\$ | Non-<br>competition<br>agreements<br>HK\$ | Contracted<br>customer<br>HK\$ | Total<br>HK\$      |
|----------------------------------------------------|----------------------------|---------------------------------------------|-------------------------------------------|--------------------------------|--------------------|
| <b>COST</b>                                        |                            |                                             |                                           |                                |                    |
| Balance at 1 January 2010                          | 1,741,936                  | 2,577,311                                   | 5,628,845                                 | 191,012,141                    | 200,960,233        |
| Effect of foreign currency<br>exchange differences | –                          | 97,646                                      | 213,259                                   | 7,236,835                      | 7,547,740          |
| Balance at 31 December 2010<br>and 1 January 2011  | 1,741,936                  | 2,674,957                                   | 5,842,104                                 | 198,248,976                    | 208,507,973        |
| Effect of foreign currency<br>exchange differences | –                          | 95,834                                      | 209,300                                   | 7,102,508                      | 7,407,642          |
| Balance at 31 December 2011                        | <b>1,741,936</b>           | <b>2,770,791</b>                            | <b>6,051,404</b>                          | <b>205,351,484</b>             | <b>215,915,615</b> |
| <b>AMORTISATION AND IMPAIRMENT</b>                 |                            |                                             |                                           |                                |                    |
| Balance at 1 January 2010                          | –                          | –                                           | 3,471,121                                 | 97,097,815                     | 100,568,936        |
| Amortisation expense                               | –                          | 441,937                                     | 1,158,228                                 | 39,303,895                     | 40,904,060         |
| Effect of foreign currency<br>exchange differences | –                          | 3,889                                       | 141,703                                   | 4,024,614                      | 4,170,206          |
| Balance at 31 December 2010<br>and 1 January 2011  | –                          | 445,826                                     | 4,771,052                                 | 140,426,324                    | 145,643,202        |
| Amortisation expense                               | –                          | 462,584                                     | 1,111,310                                 | 41,140,137                     | 42,714,031         |
| Effect of foreign currency<br>exchange differences | –                          | 15,187                                      | 169,042                                   | 4,961,092                      | 5,145,321          |
| Balance at 31 December 2011                        | <b>–</b>                   | <b>923,597</b>                              | <b>6,051,404</b>                          | <b>186,527,553</b>             | <b>193,502,554</b> |
| <b>CARRYING AMOUNTS</b>                            |                            |                                             |                                           |                                |                    |
| Balance at 31 December 2011                        | <b>1,741,936</b>           | <b>1,847,194</b>                            | <b>–</b>                                  | <b>18,823,931</b>              | <b>22,413,061</b>  |
| Balance at 31 December 2010                        | 1,741,936                  | 2,229,131                                   | 1,071,052                                 | 57,822,652                     | 62,864,771         |

The Directors consider that the club membership has indefinite useful life and is worth at least at its carrying amount by reference to the latest market prices.

The amount of the capitalised development costs represents the expenditure capitalised for development of certain sports lottery products. The amount is amortised on a straight-line method over the estimated useful life of 6 years.

The amount of the non-competition agreements represents the fair value of the non-competition clause embedded in the employment contracts between top management and SYSTEK LTD and its subsidiary (“Systek Group”) upon the acquisition of Systek Group by the Group. The amount is amortised on a straight-line method over the estimated useful life of 5 years.

The amount of the contracted customer represents the fair value of the contractual rights stated in the consultancy agreements with a principal customer of SHINING CHINA INC and its subsidiaries (“Shining China Group”) for providing consultancy services upon the acquisition of Shining China Group by the Group (the “Contracted Customer”). The amount is amortised on a straight-line method over the period of 4 to 6 years in accordance with the terms of the consultancy agreements.

## 11. TRADE RECEIVABLES

|                   | 2011<br><i>HK\$</i> | 2010<br><i>HK\$</i> |
|-------------------|---------------------|---------------------|
| Trade receivables | <b>81,015,011</b>   | 37,595,399          |

The following is an analysis of trade receivables by age, presented based on the terms of the related contracts, net of allowance for doubtful debts:

|                 | 2011<br><i>HK\$</i> | 2010<br><i>HK\$</i> |
|-----------------|---------------------|---------------------|
| 0 to 30 days    | <b>63,511,642</b>   | 32,879,123          |
| 31 to 60 days   | <b>2,084,076</b>    | 3,830,844           |
| 61 to 90 days   | <b>5,876,461</b>    | 614,986             |
| 91 to 120 days  | <b>1,687,740</b>    | 270,446             |
| 121 to 365 days | <b>2,677,563</b>    | –                   |
| Over 365 days   | <b>5,177,529</b>    | –                   |
|                 | <b>81,015,011</b>   | 37,595,399          |

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. No interest is charged on trade receivables.

At 31 December 2011, 21.61% (2010: 12.54%) of the trade receivables are past due but not impaired. Of the trade receivables balance at the end of the reporting period, approximately HK\$25,842,000 (2010: approximately HK\$26,009,000) is due from the Group's largest customer.

Receivables that are past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in the credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offsetting against any amounts owed by the Group to the counterparties.

### Ageing of past due but not impaired

|                             | 2011<br><i>HK\$</i> | 2010<br><i>HK\$</i> |
|-----------------------------|---------------------|---------------------|
| 0 to 30 days                | <b>2,084,076</b>    | 2,326,978           |
| 31 to 60 days               | <b>5,876,461</b>    | 1,851,212           |
| 61 to 90 days               | <b>1,687,740</b>    | 267,641             |
| 91 to 120 days              | <b>2,278,676</b>    | 270,445             |
| 121 to 365 days             | <b>5,576,415</b>    | –                   |
| Total                       | <b>17,503,368</b>   | 4,716,276           |
| Average age ( <i>days</i> ) | <b>115</b>          | 66                  |

There was no provision for impairment losses in respect of trade receivables from customers at 31 December 2011 (2010: nil).

## 12. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits carry effective interest at 0.001% – 0.50% per annum (2010: 0.001% – 3.49% per annum) with an original maturity of three months or less.

At 31 December 2011, the bank balances and cash of approximately HK\$122,131,000 (2010: approximately HK\$103,588,000) were denominated in RMB which is not freely convertible into other currencies.

## 13. TRADE PAYABLES

The following is an analysis of trade payables by age based on the invoice date:

|                 | 2011<br>HK\$      | 2010<br>HK\$     |
|-----------------|-------------------|------------------|
| 0 to 30 days    | 13,588,021        | 6,444,817        |
| 31 to 60 days   | –                 | –                |
| 61 to 90 days   | –                 | –                |
| 91 to 120 days  | –                 | –                |
| 121 to 365 days | 945,688           | –                |
| Over 365 days   | 57,018            | –                |
|                 | <u>14,590,727</u> | <u>6,444,817</u> |

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. Trade payables are non-interest-bearing.

## 14. DEFERRED TAXATION

The following are the deferred tax assets and liabilities recognised and movements thereon during current and prior years:

### Deferred tax assets

|                                                        | Provision<br>for warranties<br>HK\$ |
|--------------------------------------------------------|-------------------------------------|
| At 1 January 2010, 31 December 2010 and 1 January 2011 | –                                   |
| Acquisition through business combination               | 3,357,705                           |
| Effect of foreign currency exchange differences        | (1,826)                             |
| Charge to profit or loss ( <i>Note 6</i> )             | <u>(217,188)</u>                    |
| At 31 December 2011                                    | <u>3,138,691</u>                    |

## Deferred tax liabilities

|                                                     | Accelerated<br>tax<br>depreciation<br>HK\$ | Intangible<br>assets<br>HK\$ | Dividend<br>withholding<br>tax<br>HK\$ | Total<br>HK\$     |
|-----------------------------------------------------|--------------------------------------------|------------------------------|----------------------------------------|-------------------|
| At 1 January 2010                                   | –                                          | 24,018,011                   | –                                      | 24,018,011        |
| Effect of foreign currency exchange differences     | –                                          | 820,945                      | –                                      | 820,945           |
| Credit to profit or loss ( <i>Note 6</i> )          | –                                          | (10,115,531)                 | –                                      | (10,115,531)      |
| At 31 December 2010 and 1 January 2011              | –                                          | 14,723,425                   | –                                      | 14,723,425        |
| Recognised on business combination                  | 4,935,061                                  | –                            | –                                      | 4,935,061         |
| Effect of foreign currency exchange differences     | (3,181)                                    | 545,420                      | (2,080)                                | 540,159           |
| (Credit)/charge to profit or loss ( <i>Note 6</i> ) | (27,754)                                   | (10,562,861)                 | 1,225,080                              | (9,365,535)       |
| At 31 December 2011                                 | <b>4,904,126</b>                           | <b>4,705,984</b>             | <b>1,223,000</b>                       | <b>10,833,110</b> |

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amounting to approximately HK\$49,144,000 (2010: approximately HK\$36,323,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At 31 December 2011, deferred tax liabilities have been recognised for the withholding tax that would be payable on the dividends declared in respect of profits earned by the PRC subsidiaries amounting to approximately HK\$12,250,000 (2010: nil).

At the end of the reporting period, the Group has estimated unused tax losses of approximately HK\$130,673,000 (2010: approximately HK\$127,457,000) available for offsetting against the future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of the estimated tax losses due to unpredictability of future profit streams. Included in unrecognised estimated unused tax losses are losses of approximately HK\$5,760,000 (2010: approximately HK\$18,934,000) that will expire within 5 years. Other estimated unused tax losses of approximately HK\$124,913,000 (2010: approximately HK\$108,523,000) may be carried forward indefinitely.

## 15. DIVIDEND

The Board does not recommend the payment of a final dividend for the year (2010: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### About the Group

The Group is the largest professional services provider in China's sports lottery market (in terms of 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) lottery management; (ii) gaming technologies (game software, systems, hardware and terminals); and (iii) online and phone lottery distribution. It is also committed to applying advanced technologies and internet technologies to lottery industry for comprehensive coverage 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.

As of today, the Group has a team of over 300 professionals and the footprints of its sports lottery business cover 80% of provinces and municipalities across China. It is a member of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA).

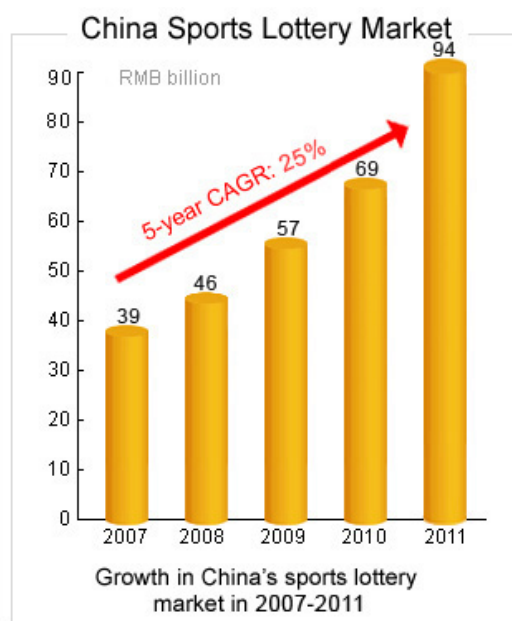


## Industry Overview

### *China's sports lottery market is worth RMB93.8 billion*

According to the information published by the Ministry of Finance of the PRC, in 2011, China's sports lottery sales reached RMB93.8 billion, which continued to hit historical highs and maintained a strong growth momentum. Sales increased by RMB20.0 billion compared with that of 2010, representing an annual growth rate of approximately 35% and a good start for the Twelve Five-Year Plan. Lottery benefit funds raised from sports lottery sales amounted to RMB25.3 billion, thereby making an outstanding contribution for the support of sports and welfare programmes in China.

The chart on the right indicates that sales of the China sports lottery market showed a continuous upward trend between 2007 and 2011, with a 5-year compound annual growth rate (CAGR) of approximately 25%. Compared with other countries, China's lottery sales per capita remained at a low level. This, coupled with a huge underground lottery market, shows that the PRC lottery market is one with tremendous growth potential. Meanwhile, as China's overall economic activity continues to grow, robust development is expected to continue for the PRC lottery market.



Source: MOF, the PRC

## Industry highlights

In 2011, the PRC sports lottery market achieved outstanding performance, with sales continued to hit record highs in the second half of the year. All three major sports lottery game types continued to sustain rapid growth, and the performance of their core products such as high frequency games, Super Lotto (超級大樂透) and Jing Cai (競彩) was particularly outstanding. During the year, popularity of high frequency games grew as certain provinces raised the prize payout ratio and some others adopted new rules. This, together with increased marketing efforts, enhanced the interest level of lottery players, thereby contributing to the robust growth in sales and making high frequency games a new profit source for sports lottery.

For lotto games, high frequency games and Super Lotto (超級大樂透) are the major growth drivers, with sales of approximately RMB19.7 billion and RMB14.0 billion respectively. While high frequency games recorded an annual sales growth of approximately 93%, Super Lotto (超級大樂透), with its extremely attractive jackpot of RMB100.0 million, has become China's most popular lotto game. Meanwhile, sports betting tickets saw the largest growth in sales, with sales reaching RMB21.8 billion, accounting for about 23% of the total sports lottery sales. Sales of the new single match game, Jing Cai (競彩), amounted to approximately RMB12.4 billion, representing an increase of approximately 104%, making it a major growth driver for sports betting games. In addition, sports lottery instant scratch tickets, Dinggugua (頂呱刮) has showed a steady upward trend in sales, with sales amounted to approximately RMB20.0 billion, accounting for 21% of the total sports lottery sales. The successful launch of the NBA themed lottery instant scratch tickets represented another valuable market opportunity brought about by major sports events; while King of Gems (寶石之王) is the first instant scratch ticket with face value of RMB30.0 being launched and offers a maximum prize of RMB1.5 million.

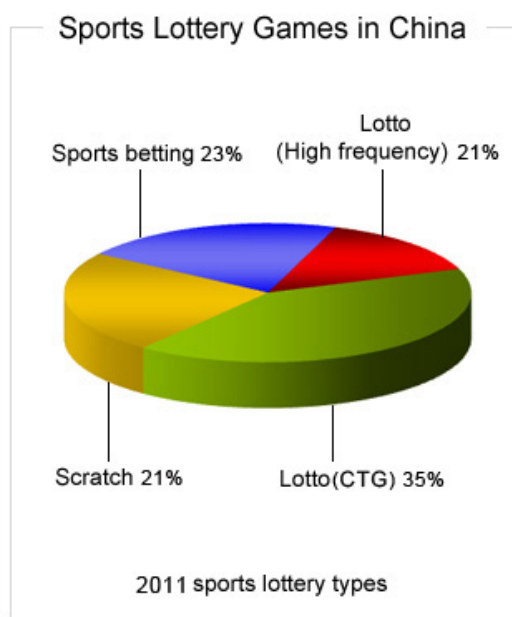
## Types of sports lottery games

The PRC sports lottery market is basically dominated by three types of games:

### 1. *Lotto*

The lotto game has continued to be the most important lottery product in the PRC sports lottery market. Sales in 2011 amounted to approximately RMB52.0 billion, accounting for about 56% of total sports lottery sales (of which 35% were traditional computerised ticket games (“CTG”), 21% were high frequency games) (as shown in the chart on the right), and represented an increase of approximately 36%, or RMB13.7 billion, compared to RMB38.3 billion in the corresponding period last year.

Most of the lotto games saw different levels of sales growth, with high frequency games and Super Lotto (超級大樂透) registered the highest growth rates. High frequency games saw rapid growth in provinces that raised the prize payout ratio, with an annual sales of approximately RMB19.7 billion, representing a year-on-year growth of 93%, while the proportion to total sports lottery sales also increased from 14% in 2010 to 21% in 2011, thus continued to rank first in sales among the game types. Meanwhile, sales for Super Lotto (超級大樂透) saw robust growth after pursuing aggressive promotional campaigns and maintained at a relatively high level subsequently; annual sales reached RMB14.0 billion, ranking second in single game sales. In the coming year, following the launch of new rapid-draw (high-frequency) sports lottery games, such as high-frequency virtual car racing game named “Lucky Racing” (幸運賽車), it is expected that there will be substantial growth of high frequency games.



Source: MOF, the PRC

### 2. *Scratch*

In 2011, sales of Dinggugua (頂呱刮) (sports lottery instant scratch tickets) amounted to approximately RMB20.0 billion, representing an annual growth rate of approximately 22% compared with approximately RMB16.4 billion in 2010 and continued to account for over 20% of the total sports lottery sales. This indicates that the sports lottery instant scratch product has continued to be an important game type in the PRC sports lottery market. In order to meet different market demands, 47 new themed lottery games were launched with enhanced product features in both intellectual and entertainment aspects during the year, which has been proved successful in attracting lottery players. New elements were also being introduced into product design and marketing. The launch of NBA themed lottery instant scratch ticket and the “FINA World Championships – Shanghai 2011” lottery ticket, which combined the concept of stamps and traditional instant scratch ticket, helped enhance brand awareness and reputation. Also, the first instant scratch ticket with face value of RMB30.0, King of Gems (寶石之王), and new sales and marketing models and promotional campaigns were launched, so as to cater for the different spending habits of lottery players and thereby enhancing their participation.

### **3. *Sports Betting***

Sales of sports betting lottery tickets amounted to approximately RMB21.8 billion, representing an increase of approximately 48% compared with approximately RMB14.8 billion in 2010 and accounted for about 23% of the total sports lottery sales. There were two highlights with respect to the sports betting products for the year. First, Jing Cai (競彩) has become the year's best selling sports betting product for the first time, with sales almost doubled that of traditional football lottery and became a major sports betting product. Second, all three types of sports betting products saw different levels of growth in sales, which indicated an upward trend in the total sales of sports betting lottery product.

The total sales amount of sports betting has continued to expand after the launch of Jing Cai (競彩). With reference to the experience of the international lottery and gaming industry, sports betting constitutes an inevitable part of the overall lottery market development. We believe that with further enhancement of product features, sports betting would meet the betting demand of domestic lottery players and sports fans for major sports events, and has the potential of becoming a focal point in the lottery market.

In general, lotto games continued to maintain a leading position in the sports lottery market, while the strong sales growth in high frequency games, Super Lotto (超級大樂透) and Jing Cai (競彩) provide new impetus to and opened a new chapter in game types for China's sports lottery sector. Looking forward to 2012, the Chinese government will continue to support the healthy development of the lottery industry and further introduce a wide range of new lottery games, technologies, systems, equipment and sales channels to meet the players' demand.

## **Business Review**

### ***Lottery Management Business***

The Group's lottery management business (which is the Group's existing core business) has maintained stable growth with revenue and profit margin improving steadily. These lottery management services consist primarily of: 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.

The enhancement in operational efficiency and effectiveness has helped the Group strengthen its leading position as a reliable provider of quality lottery management services in the Chinese sports lottery market. Also, the Board believes that the services and corresponding infrastructure and experience built and developed over time have created a seasoned backbone of management and talent skills, which will enable the Group to win and execute large multi-disciplinary/diverse projects for the lottery authorities in the PRC in the coming future.

### ***Gaming Technologies Business***

#### ***Virtual Sports Betting***

During the year under review, the virtual sports betting game "Lucky Racing" ("幸運賽車") has exceeded RMB500 million in total sales following the game's official launch on 30 August 2011. The game has been rolled out to about 1,700 lottery shops (of which over 1,400 shops were fully operational) in Hunan province and sales of "Lucky Racing" now exceed sales of all other lottery and wagering products in Hunan province.

The Directors are pleased that the launch of this new form of betting in China received nationwide television news coverage and has sparked enormous interest in this form of virtual betting (simulated rapid racing). With more exciting and entertaining game features, higher prize return ratio and higher drawing frequency, this game could better attract the burgeoning middle to high-income players and introduces a new form of social gaming product to the PRC lottery public.

“Lucky Racing” and the underlying betting transaction system are supplied by 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, with computer generated car race (formula one style) with similar betting options as horse racing. 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 achieve significant market share.

The joint venture, having successfully introduced and launched its virtual sports betting platform in Hunan province, China, is now in a unique position to expand such initial game into other provinces and introduce other virtual sports games for the China sports lottery market, targeting the expansive growth of the leisure and entertainment “wallet” in China. Virtual sports are 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.

During the year under review, the game was successfully launched in traditional dedicated sports lottery shops and leisure venues (such as coffee shops and restaurants). With continued success in the initial province of Hunan province combined with the central regulators’ game and game rule approvals, it is expected that the game has the potential to expand nationwide in terms of retail betting shops and the newly approved media channels such as mobile, internet and Internet Protocol Television (IPTV).

#### *Gaming Hardware and Technology Development*

On 29 March 2011, the Company announced the acquisition of the remaining 65% equity interest of its 35%-owned GOT. As GOT has become a wholly-owned subsidiary of the Company, this articulates an expanded role for the Group to become the largest sports lottery terminal and system provider in the PRC. In addition, it helps drive the overall vision and long-term strategy for the Group to develop new technologies to meet the increasing demand from the PRC government. It is expected that the synergistic benefits arising from GOT will be realised in the coming year.

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 above 50% in China. After over 10 years of development, GOT has become a reputable brand in the PRC commercial information products fields, and was praised by General Administration of Sport of China as the “Outstanding Company Contributing to Sports Lottery”. Based on the various competitive advantages possessed by GOT, the Board believes that GOT is very well positioned to introduce new sports lottery products for the Chinese government in the future.



In addition, during the year under review, the Group's other gaming technologies projects and strategic business developments have sustained good momentum and have been making steady progress. 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 year 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 include some of the world's gaming and wagering industry giants in their respective fields.

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

On 23 May 2011, the Group announced the acquisition of the entire issued share capital of Silvercreek. As one of the most competitive phone and mobile lottery service providers in China, Silvercreek provides lottery organisations with comprehensive phone and mobile betting solutions. The acquisition will enable the Group to tap the rapidly growing phone and mobile lottery sector in China. Considering that there is huge potential for Silvercreek to create synergies with the Group's existing businesses, the Board believes that the transaction will significantly strengthen our leading position in China's lottery market.

As a leading sports lottery enterprise in China, the Group will continue to pay attention to policy development with respect to the government approval of lottery sales via internet and phone and make corresponding strategic deployments. In the coming future, the Group will seek to expand in related businesses to drive new earnings growth for shareholders and consolidate the leading position of the Group in the industry.

### **Business Outlook**

The upcoming year 2012 will be an important year for the Group as it expects a further rollout of "Lucky Racing" virtual sports betting to more provinces in the PRC and through other more innovative distribution channels. In addition, the Group will endeavor to develop and introduce more exciting new games and contents to the Chinese sports lottery market as well as to expand existing sales network.

At the beginning of this 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 have signed an order to release the "Implementing Rules for the Regulations on the Administration of Lotteries" (the "Rules"), which has come into force on 1 March 2012. 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, the Group is in a very good position to cope with this regulatory change. Not only does the release of the Rules confirm the determination of the central government to crack down on illegal lotteries, but it also indicates that the Chinese government will start to deal with the issuance of licenses for online and mobile lottery distribution. The Directors believe that it will bring great business opportunities for the Group to further expand its business to more innovative lottery games and distribution channels in the future.

Looking ahead, the Directors are optimistic about the prospects of the sports lottery market. The Chinese government has constantly embarked on a number of initiatives to support sports lottery development, thereby enabling continued healthy growth in the PRC sports lottery market. The future lottery development in China is believed to be inclined to the development of online and mobile betting business which will concentrate on betting games including real and virtual sports games and electronic scratch tickets.

The Group considers that the growth momentum will be sustained well into the future and will continue to serve as a reliable provider of professional lottery products and services in China's lottery market to capitalise on the trend. Meanwhile, the Group will accelerate to seek the opportunities to carry out horizontal and vertical expansions such as extending its geographic reach to more provinces or cities, integrating the industry value chain, as well as developing new sports lottery terminals, systems and technologies, as lottery sale distribution and games increase.

The outlook for the next financial year is robust and the Directors are excited about the growth opportunities they see ahead. With a solid business foundation, excellent customer and government relationships as well as strong international gaming partnerships, the Board strongly believes the advanced products and technological advantages of the Group will help it capture new potential opportunities and consolidate its leading position in the industry.

In the future, the Group will continue to seek for more potential business partners and forge more strategic business alliances, with a view to increasing its market share and ultimately maximizing returns for the Shareholders. Towards these ends, the Group will also continuously place great emphasis on maintaining close ties with major business partners.

## **REVIEW OF OPERATING RESULTS**

### **Turnover and profitability**

Revenue of the Group for the year under review amounted to approximately HK\$111.3 million (2010: approximately HK\$105.1 million). 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. During the year under review, the gross profit percentage stood at approximately 66.0% (2010: approximately 61.2%). The increase in gross profit percentage was due to the effect of strict costs control measures carried out by the Group for the year.

Loss attributable to owners of the Company for the year under review amounted to approximately HK\$43.3 million, primarily due to (i) the share-based payments (totalling approximately HK\$7.3 million) 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\$42.7 million).

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

Net bank balances and cash (defined as total bank balance and cash and pledged bank deposits less total bank borrowing) as at 31 December 2011 were approximately HK\$97.8 million (2010: approximately HK\$140.9 million). The total assets and net current assets of the Group as at 31 December 2011 were approximately HK\$1,218.2 million and approximately HK\$231.6 million respectively (2010: approximately HK\$1,087.2 million and approximately HK\$202.9 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 Group has raised a bank loan of RMB50.0 million (equivalent to approximately HK\$61.2 million) during the year under review to finance the acquisition of the remaining 65% equity interest in GOT. This bank borrowing will be repaid by internal generated funds. The gearing ratio (determined as the proportion of bank borrowing to equity) of the Group as at 31 December 2011 was 0.057 (2010: nil). The liquidity ratio (defined as current assets over current liabilities) of the Group as at 31 December 2011 was approximately 3.2 which continuously reflected adequacy of financial resources.

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

Deposit and leasehold land and buildings amounting to approximately HK\$24,460,000 (2010: nil) and approximately HK\$45,493,000 (2010: nil) respectively were pledged to secure short-term bank borrowing. The pledged bank deposit and leasehold land and buildings will be released upon the settlement of relevant borrowing.

Deposit amounting to approximately HK\$2,153,000 (2010: nil) was pledged to a 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.

### **Foreign exchange exposure**

As at 31 December 2011, majority of the Group's bank deposits were denominated in HK\$ and RMB. Since all of its revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted substantially in HK\$ and RMB, which is not freely convertible into foreign currencies, the Group faced minimal exchange rate risk during the year under review.

### **Contingent liabilities**

As at 31 December 2011, the Group had no material contingent liabilities.

### **Employees' information**

As at 31 December 2011, the Group had 311 (2010: 161) employees in Hong Kong and the PRC. Total staff costs (excluding Directors' emoluments) for the year ended 31 December 2011 amounted to approximately HK\$22.8 million.

The Group's remuneration policies are formulated on the basis of performance and experience of individual employees and are in line with 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, social security fund, medical benefits and training.

### **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 audited consolidated results of the Group for the year ended 31 December 2011 have been reviewed and commented on by the audit committee.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

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.

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

- under the code provision A.2.1, the roles of chairman and 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 same individual: namely, Mr. Sun Ho, during the year. 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 year under review, the chairman of the Board was not subject to retirement by rotation, as the Board considered that the continuity of the office of the chairman provided the Group with strong and consistent leadership and was of great importance to the smooth operations of the Group.

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

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

## **SUFFICIENCY OF PUBLIC FLOAT**

As at the date of this announcement, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained sufficient public float of the Shares, representing not less than 25% of the total issued Shares as required under the GEM Listing Rules.

## **DEFINITIONS**

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

|               |                                                                                                                                          |
|---------------|------------------------------------------------------------------------------------------------------------------------------------------|
| “Board”       | means the board of Directors                                                                                                             |
| “Company”     | means AGTech Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on GEM |
| “Director(s)” | means the director(s) of the Company                                                                                                     |



|                       |                                                                                                                        |
|-----------------------|------------------------------------------------------------------------------------------------------------------------|
| “GEM”                 | means the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited                                          |
| “GEM Listing Rules”   | means the Rules Governing the Listing of Securities on GEM                                                             |
| “Group”               | means the Company and its subsidiaries                                                                                 |
| “Hong Kong”           | means the Hong Kong Special Administrative Region of the PRC                                                           |
| “PRC” or “China”      | means the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macao and Taiwan |
| “Share Option Scheme” | means the share option scheme of the Company adopted on 18 November 2004                                               |
| “Share(s)”            | means ordinary share(s) of HK\$0.002 each in the share capital of the Company                                          |
| “Shareholder(s)”      | means holder(s) of the Share(s)                                                                                        |
| “SLAC(s)”             | means China Sports Lottery Administration Centre(s)                                                                    |
| “Stock Exchange”      | means The Stock Exchange of Hong Kong Limited                                                                          |
| “HK\$”                | Hong Kong dollars, the lawful currency of Hong Kong                                                                    |
| “RMB”                 | Renminbi, the lawful currency of the PRC                                                                               |
| “%”                   | per cent                                                                                                               |

*Note: In this announcement, the exchange rate of HK\$1.223 to RMB1.00 has been used for reference only.*

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

Hong Kong, 23 March 2012

*As at the date of this announcement, 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.*

*This announcement will remain on the “Latest Company Announcement” 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).*