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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, and 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 2016**

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 2016

- Revenue of the Group for the year under review amounted to approximately HK\$251.5 million (2015: approximately HK\$301.6 million), representing a decrease of approximately 16.6% over 2015. Most of the revenue was derived from lottery games and systems, hardware, distribution and ancillary services in the PRC. The decrease in revenue was mainly due to reduced sales of lottery hardware products during the year.
- The Group recorded gross profit of approximately HK\$73.3 million (2015: approximately HK\$69.2 million). The gross profit margin percentage stood at approximately 29.1% (2015: approximately 22.9%).
- The operating loss for the year was approximately HK\$267.6 million (2015: approximately HK\$91.0 million).
- During the year, the Company recorded profit attributable to owners of the Company of approximately HK\$333.0 million (2015: loss attributable to owners of the Company of approximately HK\$280.2 million).
- The Board does not recommend the payment of a final dividend for the year.

RESULTS

The Board announces the consolidated results of the Group for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 HK\$'000	2015 HK\$'000
Revenue	2	251,492	301,630
Cost of sales		<u>(178,231)</u>	<u>(232,433)</u>
Gross profit		73,261	69,197
Other income		3,920	3,099
Net other losses	4	(12,123)	(592)
Selling, general and administrative expenses		<u>(332,688)</u>	<u>(162,750)</u>
Operating loss		(267,630)	(91,046)
Gain on fair value changes of convertible bonds		408,077	–
Gain/(Loss) on fair value changes of contingent consideration payables		119,696	(191,402)
Write-back of contingent consideration payables		79,345	–
Net finance (cost)/income		(1,590)	2,095
Share of losses of a joint venture		<u>(3)</u>	<u>(1)</u>
Profit/(Loss) before income tax		337,895	(280,354)
Income tax expense	5	<u>(5,230)</u>	<u>(3,064)</u>
Profit/(Loss) for the year	6	<u>332,665</u>	<u>(283,418)</u>
Other comprehensive income:			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Currency translation differences		<u>(68,840)</u>	<u>(65,200)</u>
Other comprehensive income for the year, net of tax		<u>(68,840)</u>	<u>(65,200)</u>
Total comprehensive income for the year		<u>263,825</u>	<u>(348,618)</u>

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Profit/(Loss) attributable to:			
Owners of the Company		332,989	(280,222)
Non-controlling interests		(324)	(3,196)
		<u>332,665</u>	<u>(283,418)</u>
Total comprehensive income attributable to:			
Owners of the Company		264,628	(344,869)
Non-controlling interests		(803)	(3,749)
		<u>263,825</u>	<u>(348,618)</u>
Earning/(Loss) per share			
Basic	7	HK4.71 cents	(HK6.20 cents)
Diluted	7	(HK1.30 cents)	(HK6.20 cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	<i>Note</i>	2016 HK\$'000	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		7,447	11,814
Investment properties		49,100	52,536
Goodwill		1,067,388	1,119,289
Other intangible assets		1,742	1,742
Investment in a joint venture		–	645
Other receivables, deposits and prepayments		6,580	11,899
Deferred income tax assets		7,950	7,500
		<hr/> 1,140,207	<hr/> 1,205,425
Current assets			
Inventories		18,801	56,306
Trade receivables	8	25,584	29,597
Other receivables, deposits and prepayments		80,587	75,892
Amount due from a joint venture		–	11
Fixed deposits held at bank with original maturity over three months		387,765	–
Pledged bank deposits		41,676	15,042
Cash and cash equivalents		2,339,731	231,647
		<hr/> 2,894,144	<hr/> 408,495
Total assets		<hr/> 4,034,351	<hr/> 1,613,920
Current liabilities			
Trade payables	9	18,418	36,664
Accruals and other payables		100,172	47,950
Current income tax liabilities		2,700	2,264
Amount due to a joint venture		–	650
Secured bank borrowings		44,957	21,982
Contingent consideration payables		62,471	63,503
		<hr/> 228,718	<hr/> 173,013

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current liabilities			
Deferred income tax liabilities		5,212	5,576
Provision for warranties		52,998	50,002
Convertible bonds		1,329,881	–
Contingent consideration payables		113,797	326,806
		<u>1,501,888</u>	<u>382,384</u>
Total liabilities		<u>1,730,606</u>	<u>555,397</u>
Net assets		<u>2,303,745</u>	<u>1,058,523</u>
Equity attributable to owners of the Company			
Share capital		20,990	9,213
Reserves		2,246,882	1,049,992
		<u>2,267,872</u>	<u>1,059,205</u>
Non-controlling interests		35,873	(682)
Total equity		<u>2,303,745</u>	<u>1,058,523</u>

1 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, contingent consideration payables and convertible bonds, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11 HKFRS 14	Accounting for acquisitions of interests in joint operations Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

2 REVENUE

Revenue represents the amounts received and receivable from sales of lottery games and systems, hardware (including provision of related after-sales services) and provision of distribution and ancillary services primarily in the PRC for the year, and is analysed as follows:

	2016 <i>HK\$’000</i>	2015 <i>HK\$’000</i>
Lottery games and systems and hardware	228,311	282,058
Provision of distribution and ancillary services	23,181	19,572
	<u>251,492</u>	<u>301,630</u>

3 SEGMENT INFORMATION

Information reported to the Executive Directors, being the Chief Operating Decision-maker (“CODM”), for the purposes of resources allocation and assessment of performance focuses specifically on the revenue analysis by principal categories of the Group’s business and the profit or loss of the Group as a whole.

Accordingly, the CODM have determined that the Group has one sole operating segment (as a professional hardware and services provider in the PRC lottery market). The information regarding revenue derived from the principal businesses described above is set out in Note 2.

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

The total segment profit or loss is equivalent to profit or loss for the year as shown in the consolidated statement of profit or loss and other 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 mainly located in the PRC.

The Group’s revenue from external customers by location of operations and information about its non-current assets* by location of assets are detailed below:

	Revenue from external customers		Non-current assets*	
	2016 HK\$’000	2015 HK\$’000	2016 HK\$’000	2015 HK\$’000
PRC	249,108	300,689	1,130,554	1,195,342
Hong Kong	–	–	1,703	2,583
Others	2,384	941	–	–
	<u>251,492</u>	<u>301,630</u>	<u>1,132,257</u>	<u>1,197,925</u>

* Non-current assets excluding deferred income tax assets.

Information about major customers

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

	2016 HK\$’000	2015 HK\$’000
Customer A	66,525	N/A*
Customer B	44,016	82,220
Customer C	32,223	N/A*
	<u>142,764</u>	<u>82,220</u>

* The corresponding customer did not contribute over 10% to the Group’s revenue in 2015.

4 NET OTHER LOSSES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Gain on fair value changes of investment properties	–	1,202
Allowance for impairment of other receivables, deposits and prepayments	(7,082)	(2,017)
Impairment charge of goodwill	(2,857)	–
Foreign exchange (loss)/gain	(2,100)	434
Loss on disposals of property, plant and equipment	(76)	(211)
Loss on winding-up of a joint venture	(8)	–
	<u>(12,123)</u>	<u>(592)</u>

5 INCOME TAX EXPENSE

Taxation has been calculated on the estimated assessable profit for the year at the rates prevailing in the countries in which the members of the Group operate.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax:		
– PRC enterprise income tax on assessable profit for the year	4,448	4,464
– Adjustments in respect of prior years	1,692	41
Deferred tax:		
– Origination and reversal of temporary differences	(910)	(1,441)
Income tax expense	<u>5,230</u>	<u>3,064</u>

6 PROFIT/(LOSS) FOR THE YEAR

Profit/(Loss) for the year has been arrived at after charging:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Auditor's remuneration	1,100	1,100
Operating lease rentals in respect of rented premises	14,862	16,156
Research and development costs	13,493	20,881
Share-based payments	86,576	35,192
PRC individual income tax ("IIT") in respect of the exercise of share options (<i>Note</i>)	<u>53,898</u>	<u>–</u>

Note: During the year, the Group agreed an arrangement with the relevant PRC tax authorities and settled the under-withheld IIT in respect of the exercise of share options by its PRC employees totalling approximately HK\$53,898,000.

7 EARNING/(LOSS) PER SHARE

(a) Basic

Basic earning/(loss) per share is calculated by dividing the profit attributable to owners of the Company for the year ended 31 December 2016 of approximately HK\$332,989,000 (2015: loss of approximately HK\$280,222,000) by the weighted average number of ordinary shares in issue during the year of approximately 7,063,295,000 shares (2015: approximately 4,522,154,000 shares).

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and contingent considerations. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense and the gain on fair value changes. The contingent considerations are assumed to have been settled in ordinary shares, and the net profit is adjusted to eliminate the gain on fair value changes.

	2016 HK\$'000
Profit attributable to owners of the Company	332,989
Adjustments for:	
– Interest expense on convertible bonds	9,874
– Gain on fair value changes of convertible bonds	(408,077)
– Gain on fair value changes of contingent consideration payables settled by issue of shares	(40,539)
	<hr/>
Loss used to determine diluted loss per share	(105,753)
	<hr/> <hr/>
Weighted average number of ordinary shares in issue (thousands)	7,063,295
Adjustments for:	
– Assumed conversion of convertible bonds (thousands)	951,390
– Assumed settlement of contingent considerations (thousands)	125,000
	<hr/>
Weighted average number of ordinary shares for diluted loss per share (thousands)	8,139,685
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For the year ended 31 December 2016, the computation of the diluted loss per share does not assume the exercise of the outstanding share options, as it would decrease the loss per share.

For the year ended 31 December 2015, the computation of the diluted loss per share does not assume the exercise of the outstanding share options and settlement of the outstanding contingent considerations, as it would decrease the loss per share.

8 TRADE RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	<u>25,584</u>	<u>29,597</u>

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.

The following is an analysis of trade receivables by age, presented based on the terms of the related contracts or delivery dates which approximate the respective revenue recognition dates:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 30 days	25,584	25,646
61 to 90 days	–	16
91 to 120 days	–	–
121 to 365 days	–	3,935
	<u>25,584</u>	<u>29,597</u>

At 31 December 2016, trade receivables of HK\$25,584,000 (2015: HK\$29,597,000) were fully performing.

The fair value of trade receivables approximated to their carrying amount.

The carrying amounts of trade receivables were denominated in RMB.

The maximum exposure to credit risk at the reporting date was the carrying value of trade receivables. The Group did not hold any collateral as security.

9 TRADE PAYABLES

At 31 December 2016, the ageing analysis of the trade payables based on invoice date were as follows:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 30 days	14,347	25,174
31 to 60 days	373	2,274
61 to 90 days	378	1,707
91 to 120 days	20	178
121 to 365 days	2,789	6,943
Over 365 days	511	388
	<u>18,418</u>	<u>36,664</u>

The average credit period is 30 days.

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

10 DIVIDEND

The Board does not recommend the payment of a final dividend for the year (2015: Nil).

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 Ant Financial Group for lottery. The Group has a team of over 300 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 and other 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 and other games; and
- (iv) Ancillary services: the provision of ancillary services for lottery and other games.

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 and other games.

The Group is an associate member of each of the World Lottery Association (WLA) and the Asia Pacific Lottery Association (APLA) and is an official organiser and operator of the Chinese card games Guan Dan and Two-on-One poker in China.

Corporate Strategy and Objectives

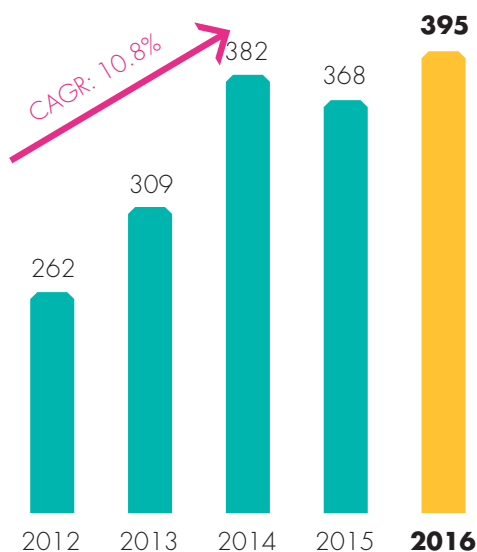
Our long-term objective is to maintain a leading position as an integrated service provider in the PRC lottery market. We will continue to support both of the PRC's legal lottery operators, namely the Welfare Lottery and the Sports Lottery, in this respect. In order to achieve our objectives, we are 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 (online and mobile) channels. The Group has been working with various world-renowned strategic partners in these efforts for many years.

INDUSTRY OVERVIEW

The PRC's Lottery Market Achieved Sales of over RMB395 billion in 2016

PRC Annual lottery sales in 2016 were the highest on record. According to data published by the MOF, total lottery sales reached approximately RMB395 billion for the year. Sales showed an annual increase of approximately 7.3%, and, according to figures published by Tencent, the lotteries were able to distribute approximately RMB104 billion to good causes during the year.

Total Lottery Sales 2012-2016 (RMB billion)



Source: MOF

2016 saw the lottery return to growth after the decline in 2015 (due to the cessation of internet sales in March 2015). As shown in the attached chart, the lottery has delivered a compound annual growth rate (“CAGR”) of over 10% during the past five years. This growth has been driven by a number of factors including growth in disposable income, increased prize payout ratios, the introduction of more appealing products.

Despite the impressive size of the lottery industry in the PRC, compared with other countries, the PRC's lottery participation rates are at a relatively low level. Official figures show rates of lottery betting participation in China estimated at around 7.5% in recent years, well below those of developed markets such as Hong Kong and the United States. This low penetration of regulated products is driven by a number of factors which include constraints on distribution with respect to the quality and location of lottery stores and the nascent stage of development of the remote channel, gaps in terms of the breadth of certain products (e.g. sports betting) and, particularly for the products with higher play frequency such as sports betting, virtual sports betting and high frequency games, payout ratios which are not sufficiently high to effectively compete with the illegal market.

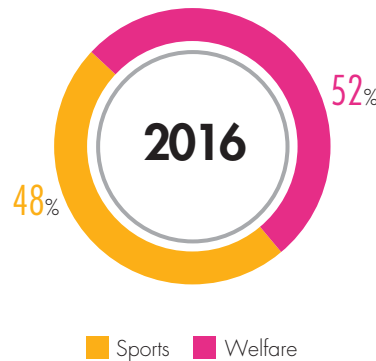
The PRC authorities are committed to channeling the existing vast underground gaming revenues away from the illegal market and into the legal and regulated lottery network. This process is already underway and is a vital step to ensure that the vulnerable in society are adequately protected, that the potential for corruption is minimised and that the funding available for good causes can increase. Through further initiatives such as continued increases in prize payout ratios, the introduction of new rapid-draw lottery and virtual sports betting games, further expansion of the sports betting network and the planned development of online and mobile distribution systems, the PRC lottery authorities will make the regulated lottery even more competitive and appealing to consumers and thereby ensure its rapid but responsible growth.

Industry Highlights

There are two legal lottery operators in the PRC: the national welfare lottery (“Welfare Lottery”) and the national sports lottery (“Sports Lottery”).

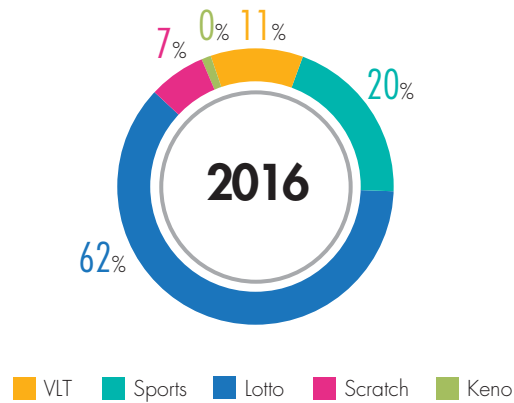
The Welfare Lottery and the Sports Lottery have five main product categories: lotto type lottery game product that are either traditional in nature with a daily or weekly draw pattern as well as modern high frequency games featuring multiple draws per hour (“Lotto”), sport betting (“Sports”), VLT, a keno product (“Keno”) and instant scratch cards (“Scratch”). Of these products, Lotto and Scratch have been common to both lottery operators for some years. Historically, VLT has only been permitted in the Welfare Lottery although a trial VLT product was launched in the Sports Lottery during 2015. At present, only the Sports Lottery is permitted to offer Sports (i.e. the sports betting product).

Total Lottery Sales by Lottery (2016)



Source: MOF

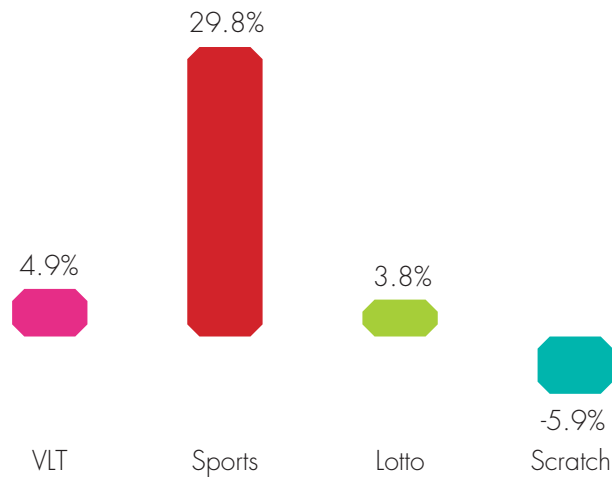
Market Share of Sales by Major Game Type (2016)



Source: MOF

In 2016, with the exception of Scratch, all of the lottery products enjoyed year on year sales growth. Sports was the stand-out product thanks in part to the UEFA 2016 European football tournament. The Scratch product has been in a pattern of decline for several years.

Lottery Sales Growth Rates Comparison by Product (2015–2016)

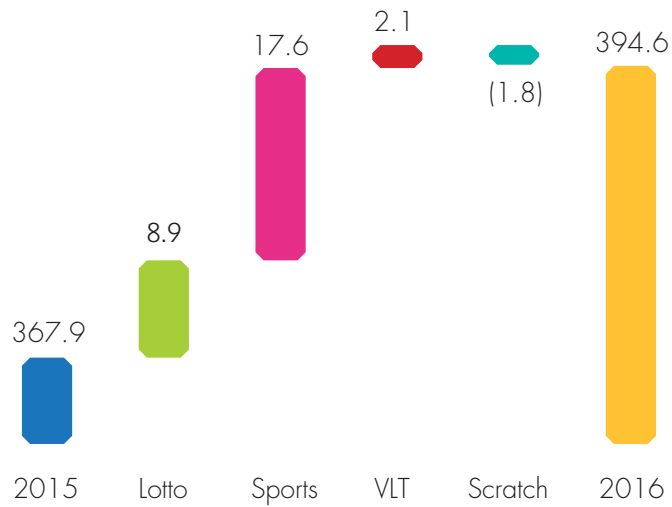


* KENO excluded due to deminimus sales volumes

Source: MOF

Given that all sales of the Sports product are conducted by the Sports Lottery and in light of the strong growth of this product, it is not surprising that in absolute terms the Sports Lottery posted larger gains than the Welfare Lottery in terms of both growth rates and absolute ticket values.

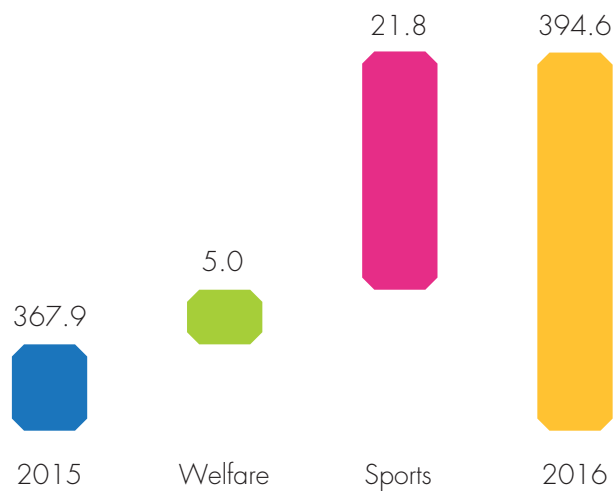
Lottery Sales Bridge 2015–2016: By Product (RMB billion)



* KENO grouped with Lotto due to de minimus sales volumes

Source: MOF

Lottery Sales Bridge 2015–2016: By Lottery (RMB billion)



Source: MOF

Performance by Major Product Type

1. *Sports*

Sales of the Sports product grew by approximately 29.8% year on year. This was partly driven by the UEFA FIFA World Cup which was held during the year. Sports is the strongest performing category in the lottery industry in China.

Only the Sports Lottery is permitted to offer the Sports product. There are two main game categories within Sports, single match betting and traditional football betting. Whilst both formats permit betting on FIFA Category A soccer matches (for example the English Premiership, European Champions League, the FIFA World Cup, etc.), single match betting differs from the traditional football betting category in two respects. Traditional football betting obliges the player to predict the outcome of every forthcoming match in a given period whereas in single match betting players can bet on just one event. In addition, single match betting players are not restricted to football betting since they can also bet on the United States' NBA basketball tournament. Within the single match betting category there are two game sub-types: Jing Cai, a product allowing pool or pari-mutuel betting on single matches or fixed odds betting on more than one match (multiples or accumulators) and Beijing single match (available in Beijing, Tianjing and Guangdong province only) where all bets (singles or accumulators) are pari-mutuel in nature.

2. *VLT*

Video lottery terminals are networked self-service lottery terminals that facilitate rapid play of themed, graphically-rich lottery games that are not available for play via the other product categories. Published figures suggest that the Welfare Lottery has an installed base of approximately 40,000 such terminals in approximately 1,700 VLT halls across the PRC. Although extremely popular and growing rapidly, due to its relatively low base, the overall contribution to national lottery sales from the VLT product remains modest. Sales in 2016 were approximately RMB45 billion, representing approximately 11% of the national market.

3. *Lotto*

Lotto contributed sales of approximately RMB245 billion during the year and remains by far the largest category in the PRC market. The annual growth in sales of 3.8% marks a turnaround from last year's decline of 12.1%. In recent years, the growth of the Lotto category has been driven by modern high (draw) frequency games (HFG).

We expect both the Welfare Lottery and the Sports Lottery to seek to continue to exploit the relative popularity of HFG. Since Lucky Racing, AGT's proprietary game, is classified as a high frequency game we believe that our Virtual Sports Lottery business could benefit from this trend through the planned roll-out of Lucky Racing to more province(s) in the PRC or via new to be approved distribution channels, for example.

4. *Scratch*

In 2016, sales of Scratch tickets were approximately RMB28.5 billion, a decline of approximately 5.9% from the previous year. Sales of the Scratch product are exhibiting a multi-year downward trend. Scratch accounted for approximately 7% of the total lottery market in 2016 compared to approximately 8% and approximately 9% in the preceding two years.

BUSINESS REVIEW

Following completion of the Subscription with Alibaba Group and Ant Financial Group on 10 August 2016, AGTech has become 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 we expect that both our physical and remote lottery and other game business will benefit from significant potential synergies resulting from the cooperation with Alibaba Group and Ant Financial Group. 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. The detailed commercial arrangements that have been entered into among the parties are described under the section headed "Business Cooperation Framework Agreement" in this announcement.

Games & Systems

The development and supply of lottery and other games, related software and underlying supporting system

The Games & Systems division has a reserve of rich and attractive lottery and other game content in various product categories designed to fulfill the demands of the market and players. This division also benefits from access to the market leading technology support solutions of the Group's shareholder, Alibaba Group.

Virtual Lottery Games

AGT, which is a company of which 51% is owned by the Group and 49% is owned by 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.

Throughout 2016, 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 games in the PRC, including a mobile smart phone lottery game and system, a high frequency numbers-based lottery game, and other game categories new to the PRC. The Group intends to introduce these new products to the market in the future, subject to the relevant regulatory approvals.

The Group is active in the research and development of various types of, creative and non-lottery social games that are suitable to cater for the evolving tastes of China's consumers. These products will be distributed via various channels of the Alibaba Group, Ant Financial Group and elsewhere.

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 and other games

Thanks to its position as the exclusive lottery and gaming provider on the Alibaba Group and Ant Financial Group lottery platforms, the Group is very well placed to take advantage of lottery sales via mobile and internet channels as and when they are approved and the Group receives the appropriate authorisation. Furthermore, the Group plans to commence offering physical lottery products via Alibaba Group's physical distribution network (including physical stores managed, co-managed or controlled by Alibaba Group). 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.

Away from the regulated lottery space, the Group is now positioning itself to provide non-lottery products via the Alibaba Group, Ant Financial Group and other channels. These products will include fun games like poker and other titles popular with Chinese players.

Ancillary Services

The provision of ancillary services to Lottery Sales Agencies

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

As the exclusive lottery business platform of Alibaba Group and Ant Financial Group we expect to benefit from significant potential synergies from our cooperation with Alibaba Group and Ant Financial Group in all areas of our business including in particular our distribution business both in terms of physical and remote (online & mobile) channels.

Our Games & Systems division continues to develop, build and deploy regulated lottery content, such as our successful virtual sports system and its first two games Lucky Racing and e-Ball as well as new lottery games and systems that are suitable for approval by the lottery authorities in China. In addition, we are working hard to research, develop and launch various types of creative, non-lottery social games that can cater for the evolving tastes of China's consumers. For both categories of products, regulated lottery and other non-lottery, we will use variety of channels including but not limited to those of the Alibaba Group and Ant Financial Group. 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 and has become the business partner of the Alibaba Group and Ant Financial Group.

We believe that the PRC lottery market is likely to demand new and more sophisticated hardware solutions over time and that those solutions will increasingly be deployed as bundled products involving the supply of hardware that is integrated with lottery games and underlying supporting systems and which would typically be provided on a revenue sharing basis. Thanks to 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.

Since the end of the reporting period and as announced on 18 January 2017, the Group has made a breakthrough in the area of competition poker when it was awarded an exclusive 5-year priority operation right in China by the Chess and Poker Games Administrative Centre under the General Administration of Sport of China (the "Chess and Poker Centre") for all competitive play of the Chinese card game Guan Dan through an open tender. Furthermore, AGTech has recently become one of the strategic partners and organisers of the China Competition Two-on-One Poker Championship. This development marks a major milestone for the Group and presents exciting opportunities in the coming months and years.

Taken together with the underlying revenue growth of the PRC lottery business, the numerous catalysts for strategic growth outlined above suggest a very positive outlook for the Group for the 2017 and the years ahead.

REVIEW OF OPERATING RESULTS

Revenue and Profitability

Revenue of the Group for the year under review amounted to approximately HK\$251.5 million (2015: approximately HK\$301.6 million), representing a decrease of approximately 16.6% over 2015. Most of the revenue was derived from lottery games and systems, hardware, distribution and ancillary services in the PRC. The decrease in revenue was mainly due to decline in the sales of lottery hardware products during the year.

During the year under review, the Group recorded gross profit of approximately HK\$73.3 million (2015: approximately HK\$69.2 million). The gross profit margin percentage stood at approximately 29.1% (2015: approximately 22.9%). The improvement was mainly attributable to cost savings in lottery games and systems, and the distribution and ancillary services during the year.

The operating loss for the year was approximately HK\$267.6 million (2015: approximately HK\$91.0 million). The increase was mainly due to the increase in selling, general and administrative expenses by approximately HK\$169.9 million and such increase was due to (i) increase in staff costs by approximately HK\$65.9 million due to the Group's business growth and expansion; (ii) payment of the PRC individual income tax ("IIT") of approximately HK\$53.9 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; and (iii) share-based payments of approximately HK\$86.6 million (2015: approximately HK\$35.2 million) as a result of share options of the Company granted to Directors, eligible employees and other eligible participants under the Share Option Schemes.

During the year under review, the Company recorded profit attributable to owners of the Company of approximately HK\$333.0 million (2015: loss attributable to owners of the Company of approximately HK\$280.2 million.). The turnaround from loss to profit attributable to owners of the Company was primarily due to non-operating gains which comprised (i) gain of HK\$408.1 million from the remeasurement of the fair value of the convertible bonds; (ii) gain of HK\$119.7 million from the remeasurement of the fair value of the outstanding contingent consideration payables; and (iii) gain of HK\$79.3 million recognised in the profit or loss which was related to the write-back of the contingent consideration payables relating to the Bonus Options (as defined in the Score Value Circular) as the pre-conditions for the grant of the Bonus Options as stipulated in the acquisition agreement in respect of the Score Value Transaction were not fulfilled within 2 years from the date of such agreement and the Company will no longer grant the Bonus Options to the vendors of Score Value.

Liquidity and financial resources

Net bank balances and cash (defined as total bank balances and cash and pledged bank deposits less total bank borrowings) as at 31 December 2016 were approximately HK\$2,336.5 million (2015: approximately HK\$224.7 million). The total assets and net current assets of the Group as at 31 December 2016 were approximately HK\$4,034.4 million and approximately HK\$2,665.4 million respectively (2015: approximately HK\$1,613.9 million

and approximately HK\$235.5 million respectively). Current liabilities of the Group as at 31 December 2016 were approximately HK\$228.7 million (2015: approximately HK\$173.0 million). As at 31 December 2016, the Group has available banking facilities denominated in RMB of up to RMB48.5 million. Total bank borrowings of the Group as at 31 December 2016 were approximately HK\$45.0 million (2015: HK\$22.0 million). The liquidity ratio (defined as current assets divided by current liabilities) of the Group as at 31 December 2016 was approximately 12.7 (2015: 2.4) which continuously reflected adequacy of financial resources of the Group.

Capital structure and foreign exchange risk

During the year under review, the Group financed its capital requirements through its equity, bank borrowings, its internally generated cash flows as well as the proceeds from the previous fund raising exercise and the Subscription and from the exercising by grantees of the share options granted under the Share Option Scheme. The gearing ratio (defined as bank borrowings divided by equity) of the Group as at 31 December 2016 was 0.02 (2015: 0.02).

As at 31 December 2016, the bank borrowings of the Group comprised:

- (a) RMB28.1 million (equivalent to approximately HK\$31.4 million) denominated in RMB, bearing interests at 3.92% per annum, and was secured by the Group's pledged bank deposit of US\$5.0 million (equivalent to approximately HK\$38.8 million), with credit period from 14 October 2016 to 14 October 2017; and
- (b) RMB12.2 million (equivalent to approximately HK\$13.6 million) denominated in RMB, bearing interests at 5.22% per annum, and was secured by the property owned by a subsidiary of the Company in the PRC, with credit period from 14 December 2015 to 8 December 2016. The bank borrowing was subsequently settled in January 2017.

As at 31 December 2016, majority of the Group's bank deposits were denominated in US\$, HK\$ and RMB. Since US\$ is pegged to HK\$, and substantially all of its revenue-generating operations, monetary assets and liabilities of the Group are conducted or transacted in functional currencies, the Group faced minimal foreign exchange risk during the year under review. The Group had neither foreign currency hedging activities nor any financial instruments for hedging purposes during the year under review.

Contingent liabilities and capital commitment

As at 31 December 2016, the Group did not have any material contingent liabilities and capital commitment.

Significant investments, material acquisitions and disposals during the year under review

There were no significant investments, material acquisitions and disposals that constituted "notifiable transactions" under Chapter 19 of the GEM Listing Rules during the year under review.

Employees' information and remuneration policies

As at 31 December 2016, the Group had 336 (2015: 239) employees in Hong Kong and the PRC. Total staff costs (excluding Directors' emoluments) for the year ended 31 December 2016 amounted to approximately HK\$122.5 million (2015: approximately HK\$53.9 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, discretionary bonus, share options under the Share Option Scheme, contributory provident fund, social security fund, medical benefits and training.

Charges on Group's assets

As at 31 December 2016, bank deposits of approximately HK\$41.7 million (2015: HK\$15.0 million) were held in designated bank accounts to secure bank borrowings totalling approximately HK\$45.0 million and letters of guarantee granted to the Group. The pledged bank deposits will be released upon the settlement of the relevant borrowings and the release of the relevant letters of guarantee granted to the Group.

Property owned by a subsidiary of the Company in the PRC was pledged with a PRC bank to secure bank borrowings totalling RMB40.3 million (equivalent to approximately HK\$45.0 million) as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, there was no charge on the assets of the Group.

Future plans for material investments and acquisition of capital assets

As at 31 December 2016, there was no specific plan for material investments and acquisition of capital assets that is required to be disclosed pursuant to Rule 17.10 of the GEM Listing Rules and the inside information provisions under Part XIVA of the SFO.

Significant changes to financial position

Inventories as at 31 December 2016 was approximately HK\$18.8 million (2015: HK\$56.3 million), with inventory turnover period increased from 64 days in 2015 to 77 days in 2016. Trade receivables as at 31 December 2016 was approximately HK\$25.6 million (2015: HK\$29.6 million), with debtor turnover period increased from 37 days in 2015 to 40 days in 2016. The increase in inventory turnover period reflected the decrease in the sales of lottery hardware products during the year; whereas the debtor turnover period tends to be stable as there are no significant fluctuations during the year under review.

As at 31 December 2016, gain of HK\$408.1 million was recorded from the remeasurement of the fair value of the convertible bonds and gain of HK\$119.7 million was recorded from the remeasurement of the fair value of the outstanding contingent consideration payables. In addition, gain of HK\$79.3 million was recognized in the profit or loss which was related to a part of the contingent consideration payables as the requirements for these payables as stipulated in the acquisition agreement were not met.

Significant events after the reporting period

Details of significant events affecting the Group after the end of the year under review are as follows:

- On 18 January 2017, the Company announced that the Group has made a breakthrough in the area of competition poker in that it was awarded an exclusive 5-year priority operation right in China by the Chess and Poker Centre for all competitive play of the Chinese card game Guan Dan through an open tender. Furthermore, the Company has become one of the strategic partners and organisers of the China Competition Two-on-One Poker Championship. Further details are disclosed in the announcement of the Company dated 18 January 2017;
- The Company had entered into the business cooperation agreement (the “Business Cooperation Agreement”) with Alibaba Holding on 25 January 2017, pursuant to which the Group shall (i) utilize certain channels and networks of the Alibaba Group for sales and distribution of the lottery products and other services on a revenue-sharing basis; and (ii) purchase technology services from Alibaba Group. As disclosed in the announcement of the Company dated 25 January 2017, the transactions contemplated under the Business Cooperation Agreement constituted continuing connected transactions (“CCTs”) under Chapter 20 of the GEM Listing Rules. As such CCTs were entered into by the Company in 2017, an annual review of such transactions will be conducted by the independent non-executive Directors and auditor of the Company for the year ending 31 December 2017 and the findings will be disclosed in the annual report of the Company for the year ending 31 December 2017;
- The Company has adopted a share award scheme on 17 March 2017 (the “Adoption Date”) which will allow the Company to grant award Shares to selected participants as incentives and/or rewards for their contribution to the Group. The aggregate number of award Shares (whether they are new Shares to be allotted and issued by the Company, award Shares that are not vested and/or are forfeited or lapsed under such scheme, or existing Shares to be purchased on-market by the trustee of such scheme) underlying all grants (including grants to connected persons of the Company) made pursuant to such scheme (excluding award Shares that have been forfeited or lapsed in accordance with such scheme) shall not exceed 6% of the total number of issued Shares as at the Adoption Date without shareholders’ approval. The total number of non-vested award Shares granted to any one selected participant under such scheme shall not exceed 1% of the total number of issued Shares from time to time. Further details are disclosed in the announcement of the Company dated 17 March 2017; and
- The Company and Alipay.com Co., Ltd.* (支付寶(中國)網絡技術有限公司) (“Alipay”), a wholly-owned subsidiary of Ant Financial, entered into a business cooperation agreement (“Alipay Framework Agreement”) on 23 March 2017, whereby the Group shall provide online activities and services which are not subject to the applicable PRC lottery laws and regulations, including information subscription and other content, and the sales and distribution of the lottery and its relevant products that the Group has developed or is authorised to operate (in online form), in the event that and so long as it is allowed under applicable laws and regulations in the PRC, on the lottery channel(s) on the online platform(s) of the Alipay and its subsidiaries on

a revenue-sharing basis under the Alipay Framework Agreement. As disclosed in the announcement of the Company dated 23 March 2017, Ant Financial Group (including Alipay, a wholly-owned subsidiary of Ant Financial) are deemed by the Stock Exchange as connected persons of the Company pursuant to Rule 20.17 of GEM Listing Rules. Accordingly, the transactions contemplated under the Alipay Framework Agreement constituted continuing connected transactions (“Alipay CCTs”) under Chapter 20 of the GEM Listing Rules. As such Alipay CCTs were entered into by the Company in 2017, an annual review of such transactions will be conducted by the independent non-executive Directors and auditor of the Company for the year ending 31 December 2017 and the findings will be disclosed in the annual report of the Company for the year ending 31 December 2017.

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 the Subscription Agreement, pursuant to which 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 45.9% of the issued share capital of the Company as at 31 December 2016) 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).

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, 18 October 2016 and 23 November 2016, the conversion price of the Convertible Bonds was adjusted to HK\$0.2915 per Share as of 31 December 2016 (the “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 Adjusted Conversion Price of HK\$0.2915 per Share represents a discount of approximately 82.5% and approximately 85.4% 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 6.5% of the issued share capital of the Company as at 31 December 2016) to the Subscriber at the then adjusted 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 52.4% of the issued share capital of the Company as at 31 December 2016).

Convertible Bonds in an aggregate principal amount of HK\$507,234,928 remained outstanding as at 31 December 2016 and the maximum number of Conversion Shares that would be issued upon full conversion of such outstanding Convertible Bonds at the Adjusted Conversion Price of HK\$0.2915 per Share as at 31 December 2016 was 1,740,018,239 (representing approximately 16.6% of the issued share capital of the Company as at 31 December 2016 and approximately 14.2% of the issued share capital of the Company as enlarged by such outstanding Conversion Shares).

Assuming that the aforesaid outstanding Convertible Bonds were converted in full as at 31 December 2016, the respective shareholdings of the substantial shareholders of the Company would have been changed as follows:

Name of substantial Shareholders	Before conversion of outstanding Convertible Bonds in full		Immediately after conversion of outstanding Convertible Bonds in full	
	Number of Shares held	% of total issued Shares	Number of Shares held	% of total issued Shares
Ali Fortune	5,502,723,993	52.43%	7,242,742,232	59.20%
Mr. Sun Ho and his wholly-owned corporation, MAXPROFIT GLOBAL INC	2,033,328,000	19.37%	2,033,328,000	16.62%
Total issued Shares as at 31 December 2016	10,494,956,270		12,234,974,509	

As at 31 December 2016, the Company had cash and bank balances totalling approximately HK\$2,769.2 million, which were more than sufficient to meet its redemption obligations under the outstanding Convertible Bonds in the aggregate principal amount of HK\$507,234,928.

As the Convertible Bonds bear no interest on the principal amount, it would be equally financially advantageous for the bondholders to convert or redeem the Convertible Bonds (and therefore the bondholders would be indifferent as to whether the Convertible Bonds are converted or redeemed) in the event that the price of each Share traded on the Stock Exchange equals the then adjusted conversion price of the Convertible Bonds.

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.

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 net proceeds, after taking into account the expenses in relation to the Subscription, shall be approximately HK\$2.38 billion (“Net Proceeds”), representing a net price of approximately HK\$0.3466 per Subscription Share as originally contemplated under the Subscription Agreement as at its execution date on 4 March 2016 (without taking into consideration any subsequent adjustments to the conversion price of the Convertible Bonds).

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 approximately HK\$2.38 billion.

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 31 December 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
(i) Games and systems: 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&D") capability in technology development for games and systems (approximately HK\$150 million to be allocated)</i>	approximately HK\$50 million	approximately HK\$18.9 million	Staff costs for new expansion of the R&D team of the Group

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 31 December 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
(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
Sub-total for “Games and systems”:	approximately HK\$800 million	approximately HK\$18.9 million	

- 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 31 December 2016: approximately HK\$1,181.1 million

(ii) **Hardware:**

<i>R&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>	approximately HK\$80 million	Nil	NA
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- Total amount earmarked for “Hardware”: approximately HK\$120 million or approximately 5.04% of Net Proceeds
- Remaining balance of Net Proceeds still available for “Hardware” as at 31 December 2016: approximately HK\$120 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 31 December 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
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(iii) **Distribution:** 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\$36.3 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

Sub-total for "Distribution":	approximately HK\$350 million	approximately HK\$36.3 million	
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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 31 December 2016: approximately HK\$813.7 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 31 December 2016	Actual application of Net Proceeds (with explanations for material deviation from intended usage, if any)
(iv) General corporate purposes:			
<i>(a) repayment of existing debts of the Group (approximately HK\$60 million to be allocated)</i>	approximately HK\$60 million	approximately HK\$31.5 million	Repayment of bank borrowings of the Group
<i>(b) 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 as general working capital of the PRC subsidiaries of the Company
Sub-total for “General corporate purposes”:	approximately HK\$100 million	approximately HK\$71.5 million	
• 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 31 December 2016: approximately HK\$138.5 million			
Grand total:	approximately HK\$1,330 million	approximately HK\$126.7 million	
• Total remaining balance of Net Proceeds as at 31 December 2016: approximately HK\$2,253.3 million (<i>Note</i>)			

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 defined 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.

For the purposes of the implementation of part of the business cooperation contemplated under the Business Cooperation Framework Agreement, the Company entered into the Business Cooperation Agreement with Alibaba Holding on 25 January 2017 setting out the specific terms and conditions of the business cooperation, and the transactions contemplated under such agreement constitutes CCTs. Further details of such CCTs are disclosed in the announcement of the Company dated 25 January 2017.

Furthermore, the Company entered into a definitive framework agreement with Alipay.com Co., Ltd.* on 23 March 2017 setting out the specific terms and conditions of the business cooperation. Further details of such agreement are disclosed in the announcement of the Company dated 23 March 2017.

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.

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 made 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 year, 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\$53.9 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.

UPDATE ON SCORE VALUE TRANSACTION

(i) Performance of the Score Value Group during the year under review

The Shenzhen Subsidiary of Score Value recorded audited net profit after taxation of approximately RMB20.5 million (equivalent to approximately HK\$23.0 million) for the year ended 31 December 2016, and together with its audited net profit after taxation of approximately RMB20.6 million (equivalent to approximately HK\$24.8 million) for the year ended 31 December 2015, amounted to an aggregate of approximately RMB41.1 million (the “Aggregate Net Profit for 2015 and 2016”).

As disclosed in the Score Value Circular, a profit guarantee of not less than RMB40 million for the aggregate net profit after taxation of the Shenzhen Subsidiary for the two financial years ended 31 December 2015 and 2016 (the “2016 Profit Guarantee”) was provided by the vendors of Score Value. Accordingly, the Aggregate Net Profit for 2015 and 2016 achieved by the Shenzhen Subsidiary exceeded the 2016 Profit Guarantee.

(ii) Status of outstanding deferred consideration for the Score Value Transaction

Pursuant to the sale and purchase agreement in respect of the Score Value Transaction (the “Score Value Agreement”), the Company or the Purchaser shall be required to pay deferred consideration in a maximum amount of HK\$300 million to the vendors of Score Value upon fulfilment of certain pre-conditions at a later stage, including obtaining the approval of the relevant PRC government authority for the lottery game to be supplied by a subsidiary of Score Value (“Game Approval Pre-condition”) and meeting the profit guarantees of an average of RMB20.0 million (equivalent to approximately HK\$25.2 million) per year provided by such vendors in respect of the Shenzhen Subsidiary of Score Value for each of the three financial years ended 31 December 2015 and 2016, and ending 31 December 2017 as described in the paragraph headed “Deferred Consideration” on pages 9 and 10 of the Score Value Circular.

As of the date hereof, the Game Approval Pre-condition has not yet been fulfilled but the parties to the Score Value Agreement have mutually agreed to further extend the deadline for fulfilment of such pre-condition to 30 June 2017. Accordingly, the First Deferred Consideration, Second Deferred Consideration and Third Deferred Consideration as described under the paragraph headed “Deferred Consideration” on page 9 of the Score Value Circular have not been paid to the vendors of Score Value.

In addition, as mentioned above, the Shenzhen Subsidiary of Score Value has achieved the 2016 Profit Guarantee. In accordance with the Score Value Agreement, the Purchaser or the Company shall pay to the vendors of Score Value a further amount of HK\$30 million which shall be satisfied as to HK\$15 million in cash (subject to any amount therefrom that should be withheld by the Company on behalf of such vendors to satisfy their tax obligations under PRC law) and as to HK\$15 million by the Company allotting and issuing 10,135,135 Consideration Shares (as defined in the Score Value Circular) to the vendors of Score Value within fifteen business days after the issue of the audit report of the Shenzhen Subsidiary of Score Value for the year ended 31 December 2016. Such Consideration Shares are not subject to any lock-up restriction. Furthermore, as the pre-conditions for the grant of the Bonus Options were not fulfilled within 2 years from the date of the Score Value Agreement, the Company will no longer grant the Bonus Options to the vendors of Score Value.

The Company will make further announcement(s) in due course when the status of other outstanding deferred consideration settlements can be ascertained.

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 CEO of the Group, Mr. Bai Jinmin is the Chief Operating Officer of the Group responsible for the Group's daily operations; Mr. Liang Yu continues to be the President of the Group responsible for its legal and compliance matters; and Mr. Cheng Guoming continues to be the President of the Group responsible for its investment and global strategy.

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

During the year under review, with effect from 26 September 2016, Ms. Lo Kei Chi resigned, and Mr. Ng Lok Ming, William was appointed, as the company secretary, authorised representative, and member of each of the corporate governance committee and risk management and internal control committee of the Company.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive Directors, namely, Ms. Monica Maria Nunes, Mr. Feng Qing and Dr. Gao Jack Qun Yao. The consolidated financial statements of the Group for the year ended 31 December 2016 have been reviewed and commented on by the audit committee.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the year under review.

During the year under review, letters were sent to Directors before the commencement of the "black-out periods" in preparation for the annual, interim and quarterly results announcements to remind them that they should not deal in the securities of the Company during such periods.

SHARE OPTIONS

A new share option scheme of the Company was approved by the Shareholders at the special general meeting held on 23 December 2014 (the "2014 Scheme") and was adopted by the Company on the same date in place of the former share option scheme of the Company adopted on 18 November 2004 (the "2004 Scheme") (which had expired on 17 November 2014).

Under the 2014 Scheme, the total number of Shares which may be issued upon exercise of all options granted under such scheme (and other share option schemes of the Company, if any) shall not exceed the "scheme mandate limit" of 443,431,786 Shares (being 10% of the Shares in issue on the date of the special general meeting of the Company held on 23 December 2014 for the purpose of, among other things, approving such scheme).

During the year ended 31 December 2016, no options were granted by the Company pursuant to the Share Option Schemes. No options were cancelled but options in respect of 15,793,961 Shares were lapsed during the year ended 31 December 2016. As at 31 December 2016, the total number of Shares still available for issue under the Share Option Schemes (excluding, for the purpose of calculating the "scheme mandate limit", any options granted under the 2014 Scheme but lapsed in accordance with the terms of such scheme) shall be 19,962,206 Shares, representing approximately 0.2% (2015: 0.4%) of the Company's issued share capital as at that date.

As a result of the options exercised during the year ended 31 December 2016, 162,699,290 Shares were issued by the Company, and the Company received a total cash consideration of approximately HK\$112.4 million in respect of such option exercises. The weighted average closing price of the Shares immediately before the dates on which these options were exercised is HK\$1.8178 per Share.

As at 31 December 2016, the number of Shares in respect of which options had been granted and remained outstanding under the Share Option Schemes was 523,605,774 (2015: 702,099,025), representing approximately 5.0% (2015: 15.2%) of the Company's issued share capital as at that date.

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.

The Company has adopted the applicable code provisions in the Corporate Governance Code and Corporate Governance Report (the “Code”) as set out in Appendix 15 of the GEM Listing Rules. The Company has applied the principles of the Code in different respects, including but not limited to:

- the frequency and proper conduct of Board meetings;
- the well-balanced composition of the Board, with independent non-executive Directors representing not less than one-third of the total number of Directors;
- the proper procedures for appointment and re-election of Directors;
- the annual review of individual Director’s contributions to the Group and the years of service of each independent non-executive Director;
- the establishment of an audit committee to review the financial reporting, risk management and internal controls of the Group and the enhanced communications between the audit committee and the auditor of the Company through meetings held for the pre-audit planning and the annual results of the Group without the presence of other Directors;
- the establishment of a remuneration committee to review the remuneration policy and other remuneration-related matters for the Group;
- the establishment of a nomination committee to formulate a policy concerning diversity in the Board and a nomination policy, make recommendations to the Board on any proposed appointment of Directors and assess the independence of the independent non-executive Directors on a regular basis;
- the establishment of a corporate governance committee to assist the Board in performing the corporate governance duties as required under the Code;
- the establishment of a risk management and internal control committee to assist the Board in discharging its ongoing responsibility to oversee the Group’s risk management and internal control systems;
- the provision of briefing or training (at the expense of the Company) on the relevant requirements of the GEM Listing Rules (including the Code) and the SFO to all newly appointed Directors and to the entire Board as and when there are new changes to such rules and regulations;

- the provision of insurance coverage for Directors' liabilities;
- the timely supply of sufficient information to Directors for matters seeking their approval or opinions;
- the timely publications of announcements, circulars, annual, interim and quarterly results and reports (collectively referred to as the "Publications") to keep the Shareholders posted of the latest business developments and financial performance of the Group;
- the holding of an annual general meeting each year to meet with the Shareholders and answer their enquiries; and
- the timely updating of the Company's official website with the latest Publications of the Company and the provision of a platform for communications with the Shareholders and investors through such website.

During the year under review, the Company complied with the Code except for the following deviations:

- (a) under the Code provision A.2.1, the roles of chairman and CEO should be separate and should not be performed by the same individual. The roles of chairman and CEO of the Company were performed by the executive Director, Mr. Sun Ho, during the year under review. 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 the Shareholders were adequately and fairly represented. The Company considered that there was no imminent need to change the arrangement;
- (b) under the Code provision A.4.2, every Director should be subject to retirement by rotation at least once every three years. However, pursuant to the Bye-laws, the chairman of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. 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;
- (c) under the Code provision A.2.7, the chairman of the Board should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors' presence. During the year under review, the chairman of the Board did not hold such kind of private meetings with the non-executive Directors. The chairman of the Board considered that it was unnecessary as it would be more transparent to let the non-executive Directors speak out their views to all executive Directors in the full Board meetings which would be held at least four times a year. Besides, the chairman of the Board, being an executive Director himself, always welcomes all non-executive Directors to directly communicate with him via his email or phone to discuss any matters of the Company from time to time;

- (d) under the Code provision A.6.6, each Director should disclose to the Company, among other things, an indication of the time involved by him/her in his/her offices held in other public companies or organisations and other significant commitments. During the year under review, no such disclosure was made by the Directors to the Company. As the Board had adopted a new corporate governance practice that each Director's contributions to the Group were reviewed and discussed at the Board meeting annually (the "Annual Contributions Review"), the Board considered that assessing the time spent by each Director on his/her commitments outside the Group was not necessary for the purposes of the Annual Contributions Review and that the disclosure of the time spent by a Director in performing his/her duties did not necessarily indicate accurately the efficiency of such Director and the effectiveness of his/her work, and may therefore be misleading;
- (e) under the Code provision B.1.2, the remuneration committee should review and recommend to the Board for approval of the specific remuneration packages of senior management. The remuneration committee of the Company had reviewed its scope of duties and considered that the delegated responsibility to review and recommend to the Board to approve the specific remuneration packages of senior management should be vested in the executive Directors who have a better understanding of the level of expertise, experience and performance expected of the senior management in the daily business operations. Notwithstanding the foregoing, the remuneration committee would continue to be primarily responsible for the review and recommendation of the remuneration packages of the Directors;
- (f) under the Code provision B.1.5, the Company should disclose details of any remuneration payable to members of senior management by band in its annual report. The Company did not make such disclosure in its annual report as the Board considered that (i) the remuneration of any newly appointed "chief executive" (as defined under the GEM Listing Rules) would have already been disclosed in the announcement previously issued by the Company in respect of such appointment in accordance with GEM Listing Rule 17.50(2)(g); (ii) the five highest paid employees within the Group had already been disclosed in the notes to the consolidated financial statements of the Group in the annual report, and (iii) giving further details of remuneration for each and every senior management staff would result in particulars of excessive length and no additional value to the Shareholders, whilst at the same time may impair the flexibility of the Group in its negotiations of remuneration packages for senior management staff (especially those who are not Directors or chief executives of the Group and hence are not supposed to be subject to the aforesaid disclosure requirement under GEM Listing Rule 17.50(2)(g)) should it need to find replacement staff or recruit additional senior personnel in the future; and
- (g) under the Code provision A.6.7, independent non-executive Directors and non-executive Directors should attend general meetings of the Company and develop a balanced understanding of the views of the Shareholders. An annual general meeting ("AGM") was held by the Company during the year under review on 6 June 2016, and Dr. Gao Jack Qunyao, an independent non-executive Director, was absent from the AGM as he was required to attend another business meeting at that time.

(The above deviations (a) to (f) were similarly disclosed on pages 31 and 32 of the Company's annual report for the year ended 31 December 2015, and the above deviation (g) was a new one that took place during the year under review. All the above deviations (a) to (g) were similarly disclosed on pages 39 to 41 of the Company's interim report for the six months ended 30 June 2016.)

CONNECTED TRANSACTIONS

During the year under review, the Group had the following connected transaction, details of which had been disclosed in compliance with the requirements of Chapter 20 of the GEM Listing Rules and in the section headed "SETTLEMENT OF PRC TAX LIABILITY" in this announcement:

During the year under review, the Group had made an arrangement with the relevant PRC tax authorities for the settlement of the under-withheld PRC individual income tax ("IIT") of approximately RMB47.8 million (equivalent to approximately HK\$53.9 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 "Tax Settlement").

The Tax Settlement has resulted in the release of the personal liability of 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 non-exempt connected transaction for the Company in respect of two of such employees who were former executive Directors (namely, Mr. Bai Jinmin and Mr. Liang Yu) and two of such employees (namely, Mr. Yang Xinwei and Ms. Wang Liying) who are currently or was, during the past 12 months, directors of a subsidiary of the Company (other than an insignificant subsidiary within the meaning of the GEM Listing Rules).

The under-withheld IIT relating to share options of the Company exercised by (a) Mr. Bai Jinmin and Mr. Liang Yu, and (b) Mr. Yang Xinwei and Ms. Wang Liying was estimated to amount to approximately RMB19.0 million (equivalent to approximately HK\$21.3 million) and approximately RMB2.3 million (equivalent to approximately HK\$2.6 million), respectively.

The Company obtained the approval from independent Shareholders for the Release of Tax Liability of Relevant Employees who are "connected persons" of the Company (namely, Mr. Bai Jinmin, Mr. Liang Yu, Mr. Yang Xinwei and Ms. Wang Liying) 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.

During the year ended 31 December 2016, the Company reviewed its related party transactions and confirmed that, save as disclosed above, there was no connected transaction or continuing connected transaction of the Company which is required to be disclosed pursuant to Chapter 20 of the GEM Listing Rules.

INTERESTS IN COMPETING BUSINESS

None of the Directors, controlling shareholder of the Company and their respective associates have an interest in a business, which competes or may compete with the businesses 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 maintained sufficient public float of the Shares, representing no 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:

“AGT”	Asia Gaming Technologies Limited, a company incorporated in Hong Kong owned as to 51% by the Company
“Ali Fortune” or “Subscriber”	Ali Fortune Investment Holding Limited, the controlling shareholder of the Company, which is indirectly owned as to 60% by Alibaba Holding and as to 40% by Ant Financial
“Alibaba Group”	Alibaba Holding and its subsidiaries
“Alibaba Holding”	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands and the American depository shares of which are listed on the New York Stock Exchange
“Ant Financial”	Ant Small and Micro Financial Services Group Co., Ltd.*(浙江螞蟻小微金融服務集團股份有限公司) (formerly known as Zhejiang Ant Small and Micro Financial Services Group Co., Ltd. (浙江螞蟻小微金融服務集團有限公司)), a company incorporated in the PRC
“Ant Financial Group”	Ant Financial and its subsidiaries
“Board”	the board of Directors
“Bye-laws”	the bye-laws of the Company
“CEO”	chief executive officer

“Company” or “AGTech”	AGTech Holdings Limited, a company incorporated in Bermuda as an exempted company with limited liability and its issued Shares are listed on GEM
“Consultant Options”	the options granted to consultants of the Company pursuant to the Share Option Schemes which entitle them to subscribe for up to 332,710,170 Shares in aggregate as at the date of this announcement
“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
“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
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	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 announcement, excludes Hong Kong, Macau and Taiwan
“province(s)”	province(s), municipality(ies) and autonomous region(s) of the PRC unless otherwise specified, and “provincial” shall be construed accordingly
“Purchaser”	Silvercreek Technology Holdings Limited, which is a wholly-owned subsidiary of the Company

“Rainwood Options”	the options which were 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, and which were exercised in full on 16 March 2016
“RMB”	Renminbi, the lawful currency of the PRC
“Score Value”	Score Value Limited, which is an indirect wholly-owned subsidiary of the Company
“Score Value Circular”	the circular of the Company dated 8 December 2014 in respect of the Score Value Transaction
“Score Value Group”	Score Value Limited and its subsidiaries
“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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share Option Schemes”	the share option schemes of the Company adopted on 18 November 2004 (which had expired on 17 November 2014) and 23 December 2014 respectively
“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)
“Shenzhen Subsidiary”	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 Score Value

“Silvercreek”	深圳市銀溪數碼技術有限公司 (Shenzhen Silvercreek Digital Technology Co., Ltd.*), a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company
“Sports Lottery”	the national sports lottery of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for 4,817,399,245 new Shares and convertible bonds of the Company in the aggregate principal amount of HK\$712,582,483 by Ali Fortune
“Subscription Agreement”	a subscription agreement dated 4 March 2016 entered into among the Company, Ali Fortune (i.e. the Subscriber), Mr. Sun Ho and Maxprofit Global Inc in relation to the Subscription
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
“US\$”	United States dollars, the lawful currency of the United States of America
“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 Ali Fortune to make a mandatory general offer for all of the Shares not already owned or agreed to be acquired by Ali Fortune or parties acting in concert with it which would otherwise arise as a result of (i) the allotment and issue of the Shares under the Subscription at its completion; and/or (ii) the allotment and issue of the Shares that may be issued upon conversion of the convertible bonds of the Company issued under the Subscription
“%”	per cent.

Notes:

1. In this announcement, the exchange rate of HK\$1.1214 to RMB1.00 has been used for reference only.
2. The English translation of the Chinese company names in this announcement are included for reference only and should not be regarded as the official English translation of such Chinese company names.
3. In the event of any inconsistency, the English text of this announcement shall prevail over the Chinese text.

* *For identification purposes only*

By order of the Board
AGTech Holdings Limited
Sun Ho
Chairman & Chief Executive Officer

Hong Kong, 24 March 2017

As at the date of this announcement, 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 announcement will remain on the “Latest Company Announcements” page of the GEM website operated by the Stock Exchange at 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.