



**CODE AGRICULTURE(HOLDINGS)LIMITED**  
**科地農業控股有限公司**

(Incorporated in Bermuda with limited liability)

**(Stock code: 8153)**

**INTERIM REPORT**  
**2010**

Three months and six months ended  
30 September 2010

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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*This report, for which the directors of Code Agriculture (Holdings) Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Code Agriculture (Holdings) Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.*

## INTERIM RESULTS

The board of directors (the “Board”) of Code Agriculture (Holdings) Limited (the “Company”) present the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 September 2010 (the “Relevant Periods”) together with the comparative unaudited figures for the corresponding periods in 2009 as follows:

### UNAUDITED CONDENSED CONSOLIDATED COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2010

	Note	Three months ended 30 September		Six months ended 30 September	
		2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Revenue	2	71,751	1,862	262,781	4,012
Cost of sales		(67,530)	(29)	(209,699)	(1,468)
Gross profit		4,221	1,833	53,082	2,544
Other revenue		692	(56)	868	231
General, administrative and other expenses		(33,949)	(4,272)	(59,625)	(26,139)
Loss from operations	3	(29,036)	(2,495)	(5,675)	(23,364)
Finance costs	4	(5,709)	(253)	(14,003)	(627)
Other gain/(loss)		486	4,370	(3,131)	8,892
Profit/(Loss) before income tax		(34,259)	1,622	(22,809)	(15,099)
Income tax expense	7	—	—	(4,216)	—
Profit/(Loss) for the period from continuing operations		(34,259)	1,622	(27,025)	(15,099)
<b>Discontinuing operations</b>					
Loss for the period from discontinuing operations	8	(1)	(4,268)	(9)	(11,426)
Loss for the period		(34,260)	(2,646)	(27,034)	(26,525)
<b>Other comprehensive income</b>					
Exchange differences on translating foreign operations		(266)	147	(289)	101
Total comprehensive income for the period		(34,526)	(2,499)	(27,323)	(26,424)
Loss attributable to:					
Owners of the Company		(33,804)	(2,374)	(26,173)	(25,488)
Minority interests		(456)	(272)	(861)	(1,037)
		(34,260)	(2,646)	(27,034)	(26,525)
Total comprehensive income attributable to:					
Owners of the Company		(34,069)	(2,227)	(26,452)	(25,387)
Minority interests		(457)	(272)	(871)	(1,037)
		(34,526)	(2,499)	(27,323)	(26,424)
Basic earnings/(loss) per share					
From continuing and discontinuing operations	9	(1.25) HK cents	(0.13) HK cents	(0.97) HK cents	(1.41) HK cents
From continuing operations	9	(1.25) HK cents	0.10 HK cents	(0.97) HK cents	(0.78) HK cents

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 September 2010 and 31 March 2010

	Note	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	10	213,687	213,543
Prepaid land lease payment	10	8,410	8,523
Goodwill	10	817,195	817,195
Other intangible assets	10	255,777	268,940
		<b>1,295,069</b>	1,308,201
<b>Current assets</b>			
Inventories		55,038	18,753
Accounts and notes receivable	11	399,259	331,308
Other receivables and deposits		99,422	167,013
Financial assets at fair value through profit or loss		8,245	6,916
Assets held for resale		2,370	2,141
Pledged deposits		127,386	135,918
Bank balances and cash		72,244	192,881
		<b>763,964</b>	854,930
<b>Current liabilities</b>			
Accounts and notes payable	12	128,702	236,080
Other payables and accrued charges		86,907	30,743
Amounts due to related companies		2,109	6,644
Bank and other loans		313,364	312,227
Tax payable		4,076	7,051
		<b>535,158</b>	592,745
<b>Net current assets</b>		<b>228,806</b>	262,185
<b>Total assets less current liabilities</b>		<b>1,523,875</b>	1,570,386
<b>Capital and reserves</b>			
Share capital	13	27,138	26,673
Reserves		847,105	878,178
Equity attributable to owners of the company		874,243	904,851
Minority interests		4,457	5,328
<b>Total equity</b>		<b>878,700</b>	910,179
<b>Non-current liabilities</b>			
Convertible bond		645,175	660,207
		<b>1,523,875</b>	1,570,386

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Share-based payment reserve HK\$'000	Exchange reserve HK\$'000	Convertible bonds — equity component HK\$'000	Subtotal HK\$'000	Minority interest HK\$'000	Total HK\$'000
At 1 April 2009	17,593	612,184	(367,489)	(197)	—	7,382	(290)	—	269,183	26,352	295,535
Issue of shares, net of expenses	910	24,755	—	—	—	—	—	—	25,665	—	25,665
Issue of share options	—	—	—	—	—	14,500	—	—	14,500	—	14,500
Total comprehensive income for the period	—	—	(25,488)	—	—	—	101	—	(25,387)	(1,037)	(26,424)
At 30 September 2009	18,503	636,939	(392,977)	(197)	—	21,882	(189)	—	283,961	25,315	309,276
At 1 April 2010	26,673	1,035,366	(636,820)	(197)	26,062	15,882	92	437,793	904,851	5,328	910,179
Exercise of share options	465	5,347	—	—	—	—	—	—	5,812	—	5,812
Redemption of convertible bond	—	—	—	—	—	—	—	(9,968)	(9,968)	—	(9,968)
Total comprehensive income for the period	—	—	(26,173)	—	—	—	(279)	—	(26,452)	(871)	(27,323)
At 30 September 2010	27,138	1,040,713	(662,993)	(197)	26,062	15,882	(187)	427,825	874,243	4,457	878,700

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2010

	Unaudited Six months ended 30 September 2010		2009
	HK\$'000		HK\$'000
Net cash outflow from operating activities	(99,105)		(15,981)
Net cash used in investing activities	(3,204)		(8,623)
Net cash (used in)/from financing activities	(18,051)		25,665
Net (decrease)/increase in cash and cash equivalents	(120,360)		1,061
Cash and cash equivalents at 1 April	192,881		6,976
Effect of changes in foreign exchange rates	(277)		410
Cash and cash equivalents at 30 September	72,244		8,447
Analysis of balances of cash and cash equivalents:			
Bank balances and cash	72,244		8,447

Notes:

### 1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention, as modified by revaluation of financial assets at fair value through profit or loss which are carried at fair value.

The accounting policies and methods of computation adopted in the preparation of these unaudited consolidated accounts are consistent with those set out in the annual financial statements for the year ended 31 March 2010. The consolidated results are unaudited but have been reviewed by the Company’s audit committee.

### 2. Segment information

The Group is principally engaged in the research and development, manufacture, sales and marketing, and technical servicing of modern agricultural technology and products in China. Its modern tobacco agricultural business covers extensive aspects, including modified tobacco leaf, agricultural equipment and machinery, new energy, nursery greenhouse, fertilizer, pesticide, biotechnology and related professional services. Other businesses include the development of digital television system platform and cordyceps related business in the People’s Republic of China (“PRC”) and the provision of pre-mastering and other media services, the provision of audiovisual playout services in Hong Kong.

For the six months ended 30 September 2010, the Group discontinues the operations of the provision of pre-mastering and other media services (“Media Services”), the provision of audiovisual playout services (“Playout Services”) in Hong Kong, and direct television sales in the PRC.

#### Primary report format — business segments

The Group is organised into seven main business segments:

- Sales of agricultural machinery;
- Sales of fertilizer;
- Provision of TV digitalisation related services — development of digital set-top boxes and the system platform for digital TV network and provision of digitalisation related technical support services;

- Sale of cordyceps-related product;
- Provision of pre-mastering and other media services — include editing, authoring and digitalisation of audiovisual data processes;
- Provision of audiovisual playout services on audiovisual data; and
- Direct television sales;

There are no sales or other transactions between the business segments.

**Secondary report format — geographical segments**

The Group's seven business segments operated in two main geographical areas:

- Hong Kong — provision of pre-mastering and other media services and provision of audiovisual playout services;
- PRC — sales of agricultural machinery, fertilizer, development of digital television system platform and provision of related services, sales and rental of set-top boxes, development of program database, design and manufacture of digital television equipment and facilities, direct television sales and sale of cordyceps-related products.

There are no sales between the geographical segments.

**Business Segment**

	Unaudited Six months ended 30 September 2010								Consolidated HK\$'000	
	Continuing operations				Discontinuing operations					
	Sales of agricultural machinery HK\$'000	Sales of fertilizer HK\$'000	Provision of TV digitalisation related services HK\$'000	Sale of cordyceps- related product HK\$'000	Total	Provision of Pre-mastering and other media services HK\$'000	Provision of audiovisual playout services HK\$'000	Direct television sales HK\$'000		Total
Revenue	242,862	18,159	1,560	200	262,781	—	—	—	—	262,781
Segment results	41,029	(1,368)	(1,743)	(16,770)	21,148	(5)	(4)	—	(9)	21,139
Unallocated income					865				—	865
Unallocated expenses					(27,688)				—	(27,688)
Loss from operations					(5,675)				(9)	(5,684)
Finance costs					(14,003)				—	(14,003)
Other losses					(3,131)				—	(3,131)
Loss before income tax					(22,809)				(9)	(22,818)
Income tax expenses					(4,216)				—	(4,216)
Loss for the period					(27,025)				(9)	(27,034)
Capital expenditure	3,660	718	10	—	4,388	—	—	—	—	4,388
Unallocated capital expenditure										2,888
										7,276
Depreciation	1,482	3,713	286	199	5,680	—	—	—	—	5,680
Unallocated depreciation										152
										5,832

	Unaudited As at 30 September 2010								Consolidated HK\$'000
	Continuing operations				Discontinuing operations				
	Sales of agricultural machinery HK\$'000	Sales of fertilizer HK\$'000	Provision of TV digitalisation related services HK\$'000	Sale of cordyceps- related product HK\$'000	Provision of Pre-mastering and other media services HK\$'000	Provision of audiovisual playout services HK\$'000	Direct television sales HK\$'000	Total	
Segment assets	705,344	223,385	10,222	53,034	1,306	4,617	102	998,010	
Unallocated assets								1,061,023	
Total assets								2,059,033	
Segment liabilities	189,714	1,654	10,102	19,060	215	121	4,755	225,621	
Unallocated liabilities								954,712	
Total liabilities								1,180,333	

Unaudited  
Six months ended 30 September 2009

	Continuing operations			Discontinuing operations				Consolidation HK\$'000
	Provision of TV digitalisation related services HK\$'000	Sale of cordyceps-related product HK\$'000	Total HK\$'000	Provision of Pre-mastering and other media services HK\$'000	Provision of audiovisual playout services HK\$'000	Direct television sales HK\$'000	Total HK\$'000	
Revenue	365	3,647	4,012	7,346	2,555	562	10,463	14,475
Segment results	(2,880)	1,602	(1,278)	999	(3,516)	(7,057)	(9,574)	(10,852)
Unallocated income			229				—	229
Unallocated expenses			(13,423)				(1,810)	(15,233)
Loss from operations			(14,472)				(11,384)	(25,856)
Finance costs			(627)				(42)	(669)
Loss attributable to shareholders			(15,099)				(11,426)	(26,525)
Capital expenditure	386	7,384	7,770	137	301	415	853	8,623
Depreciation	1,037	142	1,179	265	265	513	1,043	2,222
Unallocated depreciation								32
								2,254

Audited  
As at 31 March 2010

	Continuing operations			Discontinuing operations				Consolidated HK\$'000
	Sales of agricultural machinery HK\$'000	Sales of fertilizer HK\$'000	Provision of TV digitalisation related services HK\$'000	Sale of cordyceps-related product HK\$'000	Provision of Pre-mastering and other media services HK\$'000	Provision of audiovisual playout services HK\$'000	Direct television sales HK\$'000	
Segment assets	464,357	337,683	4,689	57,823	1,191	2,121	102	867,966
Unallocated assets								1,295,165
Total assets								2,163,131
Segment liabilities	206,186	42,390	14,988	20,485	2,061	243	4,755	291,108
Unallocated liabilities								961,844
Total liabilities								1,252,952

Geographical segments

	Unaudited Six months ended 30 September 2010			Unaudited As at 30 September 2010
	Revenue HK\$'000	Segment results HK\$'000	Capital expenditure HK\$'000	Segment assets HK\$'000
Hong Kong	—	(9)	2,888	71,935
PRC	262,781	21,148	4,388	1,987,098
	<u>262,781</u>	<u>21,139</u>	<u>7,276</u>	<u>2,059,033</u>
Unallocated income		865		
Unallocated costs		(27,688)		
Loss from operations		<u>(5,684)</u>		
		Unaudited Six months ended 30 September 2009		Audited As at 31 March 2010
	Revenue HK\$'000	Segment results HK\$'000	Capital expenditure HK\$'000	Segment assets HK\$'000
Hong Kong	9,901	(2,517)	438	100,508
PRC	4,574	(8,335)	8,185	2,062,623
	<u>14,475</u>	<u>(10,852)</u>	<u>8,623</u>	<u>2,163,131</u>
Unallocated income		229		
Unallocated costs		(15,233)		
Loss from operations		<u>(25,856)</u>		

3. Loss from operations

Loss from operations are stated after charging the following:

	Continuing operations		Unaudited Six months ended 30 September Discontinuing operations		Consolidated	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Amortisation of club membership	4	3	—	—	4	3
Amortisation of film rights	—	110	—	—	—	110
Amortisation of Technologies	13,159	—	—	—	13,159	—
Cost of inventories sold	187,514	739	—	5,260	187,514	5,999
Depreciation	5,832	1,211	—	1,043	5,832	2,254
Operating leases in respect of						
— land and building	1,777	746	—	2,324	1,777	3,070
— plant and machinery	—	—	—	2,910	—	2,910
Staff costs (including directors' emolument and share-based payment)	14,457	19,007	—	6,352	14,457	25,359
	<u>14,457</u>	<u>19,007</u>	<u>—</u>	<u>6,352</u>	<u>14,457</u>	<u>25,359</u>

4. Finance costs

	Continuing operations		Unaudited Six months ended 30 September Discontinuing operations		Consolidated	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Interest expenses on borrowings wholly repayable within five years	14,003	627	—	42	14,003	669
	<u>14,003</u>	<u>627</u>	<u>—</u>	<u>42</u>	<u>14,003</u>	<u>669</u>

5. Other gain/(loss)

	Continuing operations		Unaudited Six months ended 30 September Discontinuing operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gain/(loss) on financial assets at fair value through profit or loss						
— Unrealised	1,015	8,892	—	—	1,015	8,892
— Realised	(4,146)	—	—	—	(4,146)	—
	<u>(3,131)</u>	<u>8,892</u>	<u>—</u>	<u>—</u>	<u>(3,131)</u>	<u>8,892</u>

6. Staff costs

	Continuing operations		Unaudited Six months ended 30 September Discontinuing operations		Consolidated	
	2010	2009	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Wages and salaries	13,747	4,442	—	6,196	13,747	10,638
Pension costs — defined contribution plans	710	65	—	156	710	221
Share-based payment	—	14,500	—	—	—	14,500
	<u>14,457</u>	<u>19,007</u>	<u>—</u>	<u>6,352</u>	<u>14,457</u>	<u>25,359</u>

7. Income tax expense

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

*Hong Kong profits tax*

No provision for Hong Kong profits tax has been made in these financial statements as there was no estimated assessable profits for the period (2009: Nil).

*PRC corporate income tax*

In accordance with the relevant tax laws in the PRC, subsidiaries are subject to corporate income tax rate of 25% on its taxable income. However, in accordance with the relevant tax laws in the PRC, it is exempted from corporate income tax for its first two profit-making years (after deducting losses incurred in previous years) and is entitled to a 50% tax reduction for the succeeding three years.

The amounts of income tax expense recorded in the unaudited consolidated income statement represent:

	For the six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Continuing operations		
Current taxation		
PRC corporate income tax	(4,216)	—
	<u>(4,216)</u>	<u>—</u>

8. Discontinuing operation

As at 30 September 2010, the Company discontinuing the operations of the pre-mastering and other media services, audiovisual playout service and direct TV sales segments in order to concentrate its financial and human resources on its high growth businesses.

The results of the discontinuing operations included in the consolidated results of the Company for the six months ended 30 September 2010 together with the comparative figures for the corresponding period in 2009 are set out below.

	For the six months ended 30 September	
	2010 HK'000	2009 HK'000
Revenue	—	10,463
Cost of sales	—	(9,824)
Gross profit	—	639
Other revenue	—	1
General, administrative and other expenses	(9)	(12,024)
Loss from operation	(9)	(11,384)
Finance costs	—	(42)
Loss before income tax	(9)	(11,426)
Income tax expenses	—	—
Loss for the period from discontinuing operations	<u>(9)</u>	<u>(11,426)</u>

9. Earnings/(Loss) per share

*For continuing and discontinuing operations*

The calculation of the basic loss per share attributable to the owners of the company is based on the following data:

	For the three months ended 30 September		For the six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Loss</b>				
Loss for the purpose of basic loss per share	<u>(33,804)</u>	<u>(2,374)</u>	<u>(26,173)</u>	<u>(25,488)</u>
	2010 '000	2009 '000	2010 '000	2009 '000
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>2,712,820</u>	<u>1,836,037</u>	<u>2,704,331</u>	<u>1,813,861</u>

*From continuing operations*

The calculation of the basic loss per share from continuing operations attributable to the owners of the company is based on the following data:

	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Loss for the period attributable to owners of the company	(33,804)	(2,374)	(26,173)	(25,488)
<i>Less:</i>				
Loss for the period from discontinuing operations	(1)	(4,268)	(9)	(11,426)
Earnings/(Loss) for the purpose of basic loss per share from continuing operations	<u>(33,803)</u>	<u>1,894</u>	<u>(26,164)</u>	<u>(14,062)</u>

*From discontinuing operations*

Basic loss per share for discontinued operation for both the three months and six months ended 30 September 2010 were HK\$Nil cents per share (2009: 0.23 HK cents per share and 0.63 HK cents per share respectively). The calculation was based on the Group's loss attributable to owners of approximately HK\$1,000 and HK\$9,000 respectively (2009: HK\$4,268,000 and HK\$11,426,000) and on 2,712,820,000 and 2,704,331,000 (2009: 1,836,037,000 and 1,813,861,000) weighted average number of ordinary shares in issue during the period, respectively.

No diluted loss per share for 2010 and 2009 has been presented, as the exercise of the outstanding share options and convertible bonds of the Company during the three months and six months ended 30 September 2010 and 2009 would result in reducing loss per share.

10. Capital expenditure

	Other intangible assets				Property, plant and equipment HK\$'000	Prepaid land lease payment HK\$'000	Goodwill HK\$'000
	Patents HK\$'000	Technologies HK\$'000	Club membership HK\$'000	Subtotal HK\$'000			
Carrying value at 1 April 2010	10,000	258,782	158	268,940	213,543	8,523	817,195
Additions	—	—	—	—	7,276	—	—
Amortisation/depreciation charge	—	(13,159)	(4)	(13,163)	(5,832)	(113)	—
Disposals	—	—	—	—	(1,288)	—	—
Exchange realignment	—	—	—	—	(12)	—	—
Carrying value at 30 September 2010	<u>10,000</u>	<u>245,623</u>	<u>154</u>	<u>255,777</u>	<u>213,687</u>	<u>8,410</u>	<u>817,195</u>

11. Accounts and notes receivable

The Group's credit term granted to trade debtors generally ranges from 15 to 90 days. At 30 September 2010, details of the ageing analysis of accounts and notes receivable were as follows:

	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Current	192,683	300,110
31 — 60 days	86,788	47
61 — 90 days	44,139	315
Over 90 days	75,649	6,462
Notes receivable — current	<u>399,259</u>	<u>306,934</u>
	<u>—</u>	<u>24,374</u>
	<u>399,259</u>	<u>331,308</u>

12. **Accounts and notes payable**

Details of the ageing analysis of accounts and notes payable were as follows:

	<b>Unaudited 30 September 2010 HK\$'000</b>	Audited 31 March 2010 HK\$'000
Current	77	7,460
31 — 60 days	64,240	5,963
61 — 90 days	27,539	46,998
Over 90 days	711	68,150
	<u>92,567</u>	<u>128,571</u>
Notes payable — current	<u>36,135</u>	<u>107,509</u>
	<u><b>128,702</b></u>	<u><b>236,080</b></u>

13. **Share capital**

	<b>Number of ordinary shares of HK\$0.01 each '000</b>	<b>Ordinary shares HK\$'000</b>
<i>Authorised</i>		
At 1 April 2010 and at 30 September 2010	<u>10,000,000</u>	<u>100,000</u>
<i>Issued and fully paid</i>		
At 1 April 2010	2,667,298	26,673
Issue of new shares upon exercise of share options ( <i>Note a</i> )	<u>46,500</u>	<u>465</u>
At 30 September 2010	<u><b>2,713,798</b></u>	<u><b>27,138</b></u>

*Note:*

(a) On 9 April 2010, an employee and two consultants exercised share options to subscribe 20,000,000 shares and 10,000,000 shares of the Company at an exercise price of HK\$0.125 per share with consideration of HK\$2,500,000 and HK\$1,250,000 respectively, of which a total of HK\$300,000 was credited to share capital account and the balance HK\$3,450,000 was credited to share premium account.

On 26 April 2010, an employee exercised share options to subscribe 1,500,000 shares of the Company at an exercise price of HK\$0.125 per share with consideration of HK\$187,500, of which a total of HK\$15,000 was credited to share capital account and the balance HK\$172,500 was credited to share premium account.

On 7 July 2010, a consultant of the Company exercised share options to subscribe 15,000,000 shares of the Company at an exercise price of HK\$0.125 per share with a total consideration of HK\$1,875,000, of which HK\$150,000 was credited to share capital account and the balance HK\$1,725,000 was credited to share premium account.

14. **Capital Commitments**

At 30 September 2010, the Group had capital commitments in respect of the following:

	<b>Unaudited 30 September 2010 HK\$'000</b>	Audited 31 March 2010 HK\$'000
Contracted for but not provided for:		
Construction in progress	<u>33,078</u>	<u>33,930</u>

15. **Comparative figures**

Certain comparative figures have been reclassified and adjusted to conform with the current period's presentation.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 30 September 2010 (2009: Nil).

## FINANCIAL AND BUSINESS REVIEW

For the six months ended 30 September 2010, the Group has recorded a revenue of approximately HK\$262,781,000 (2009: approximately HK\$4,012,000) from continuing operations. The surge was mainly due to income generated from the newly acquired agricultural machinery business which has been fully reflected in the reporting period.

Revenue from the agricultural machinery and fertiliser business amounted to approximately HK\$261,021,000 (2009: Nil), accounting for about 99.3% of the Group's revenue by 30 September 2010.

The provision of TV digitalisation related services recorded a revenue of approximately HK\$1,560,000 (2009: HK\$365,000). The sales of cordyceps-related products amounted to HK\$200,000 (2009: HK\$3,647,000). These businesses constitute a relatively low proportion of the turnover as they are presently at a development stage. We are looking for opportunities to further foster an increase in these businesses.

The Group discontinued the operations of pre-mastering and other media services ("Media Services"), audiovisual playout services ("Playout Services") and direct television sales in order to concentrate its financial and human resources on other high growth potential businesses.

During the period, no revenue was recorded from Media Services, Playout Services and direct television sales (2009: HK\$7,346,000, HK\$2,555,000 and HK\$562,000 respectively).

The Group generated a gross profit of approximately HK\$53,082,000 (2009: HK\$2,544,000) from continuing operations while the gross profit margin has been dropped from 63% in 2009 to 20% in the current period, mainly due to the incorporation of result of sales of agricultural machinery and fertilizer businesses which have relatively lower profit margin than the highly profitable cordyceps related products.

During the review period, the loss attributable to owners of the Company of approximately HK\$26,173,000 (2009: HK\$25,488,000) from continuing and discontinuing operations.

## BUSINESS PURSUITS AND PROSPECTS

### Market Review

China is the largest market for tobacco agriculture and leaf curing, with the largest volume of production and consumption in the world which is reflected in its great contribution to the national tax income. Approximately 8% of the total national tax income was contributed by the tobacco industry in 2009. In view of the sheer scale, there is great potential for the Group's development.

Driven by the state's guideline announced by the State Tobacco Monopoly Bureau, the modernisation of the tobacco agricultural industry is essential.

Considering the global call to reduce carbon dioxide emissions, the PRC Government encourages the use of biological control, energy-saving and lower-emission leaf curing facilities, allowing more room for the development of the Group and boosting its prospects for growth.

As a pioneer in the industry, the Group will endeavour to make the most of the outstanding opportunities in the market through leveraging State guidelines and optimising its tobacco agricultural business through modernisation.

### Business Review & Outlook

The Group has been one of the first companies in China to engage in the tobacco leaf curing industry with a market share of more than one-third and rank the first in sales volume among the major domestic flue-curing machinery suppliers in 2009. Together with its vertically integrated production from agricultural machinery and fertilisers to leaf curing machines, the Group has equipped itself to meet market demand, generate increased growth and strengthen its leading position in the industry. Moreover, the licenses of this business sector are no longer issued by the PRC Government. With its solid foundation, the Group is currently the biggest company pursuing modern tobacco agriculture business in China with a highly comprehensive production line based in Zhengzhou, Henan Province. The Group has continually endeavoured in its research and development (R&D) to achieve its goal as a leading modernised agricultural business across a series of crops including tobacco leaf.

In fact, consumers' demand for a better quality of tobacco has increased, alongside rising consumption of and expenditure on tobacco in China. These trends are a driving force for the Group's technology development in improving its tobacco and other agriculture business.

### *Agricultural machinery business*

To fulfill the PRC Government's environmental protection requirements, the Group has started to use tobacco stalk, cotton stalk and soybean straw as the fuel for its leaf curing machines, which helps save 2 million tonnes of coal and lowers the output of carbon dioxide emission by 5.2 million tonnes while processing 1.5 million tonnes of tobacco leaf. The Group is also investing in the R&D of a new type of leaf curing barn powered by solar energy or biomass energy and an automatic barn.

### *Fertiliser business*

As for the fertiliser business, the Group is also producing new types of fertilisers to meet the growing demand of production capacity: approximately 15 million acres of land in China is used for tobacco cultivation, which requires an annual volume of fertiliser totalling 750,000 tonnes. There is room for growth in the tobacco fertiliser segment, which is also the Group's main area of development. The price of amino acid bio-fertiliser produced by the Group is twice that of normal fertiliser in the market. However, a much smaller quantity is required and amino-acid bio-fertiliser can enhance the quality of crops, effectively tackling the problem of unfertile soil commonly arising from the inappropriate use of tobacco agricultural land.

## Alliance

To achieve sustainable development, the Group has been striving to achieve high-technology agriculture through its strong focus on R&D. The Group currently has more than 10 patents, including those applied for and pending. In 2010, the Group and Henan Agriculture University initiated an industry-academic research partnership by jointly signing a strategic cooperation and investment framework agreement. The research is to be undertaken in collaboration with the most influential National Tobacco Cultivation, Physiology & Biochemistry Research Centre (“The Research Centre”) within Henan Agriculture University, the only research centre with a laboratory specialising in tobacco cultivation. In September 2010, the Group has established the first modern tobacco cultivation demonstration centre in Henan for laboratory, education and training purposes, which is expected to be completed by October 2012.

The Group will continue to leverage its expertise in tobacco agriculture and focus on the R&D of high-technology agriculture and environmental protection to create promising long-term returns for its shareholders.

## LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2010, the Group’s total loans and borrowings amounted to approximately HK\$958,539,000 (31 March 2010: HK\$972,434,000). Among the total amounts of such loan and borrowings, approximately HK\$313,364,000 (31 March 2010: HK\$312,227,000) was payable within one year and approximately HK\$645,175,000 (31 March 2010: HK\$660,207,000), the liability portion of convertible bond was payable after one year.

At the end of reporting period, cash and deposit at bank, including pledged deposit amounted to HK\$199,630,000 (31 March 2010: HK\$328,799,000) and net debt HK\$758,909,000 (31 March 2010: HK\$643,635,000). The gearing ratio became 110% (31 March 2010: 107%) based on the bank and other loans and convertible bond of approximately HK\$958,539,000 (31 March 2010: HK\$972,434,000) and the equity attributable to owners of the Company HK\$874,243,000 (31 March 2010: HK\$904,851,000).

The Group’s bank balances and borrowings are denominated in Hong Kong dollars and Renminbi and the Group has no significant exposure to foreign currency fluctuations.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2010.

## EMPLOYEE INFORMATION

As at 30 September 2010, the Group had 404 full-time employees. Employee costs, including directors’ emoluments for the period amounted to approximately HK\$14,457,000. Remuneration is reviewed annually and employees are rewarded on a performance related basis. In addition to the basic salaries, a wide range of benefits, including medical coverage, provident funds, training and development programmes and long service awards are also provided on an ongoing basis to employees of the Group. The Group has a share option scheme whereby qualified employees may be granted options to acquire shares of the Company.

## DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2010, the interests and short positions of the directors and chief executives of the company in the shares of HK\$0.01 each in the share capital of the Company (“Shares”), underlying Shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance (“SFO”)), as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the SFO or the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) were as follows:

### (a) Ordinary shares of HK\$0.01 each in the Company

Name of directors	Personal interests	Corporate interests	Other interests	Approximate percentage held
Mr. Wong Man Hung Patrick	25,000,000	—	—	0.92%
Mr. Feng Xiao Ping	—	31,718,750 (note (a))	—	1.17%

Note:

- (a) 31,718,750 shares are held by Sino Unicorn Technology Limited (“Sino Unicorn”), a company in which Mr. Feng Xiao Ping has an indirect interest of 51% therein.

Save as disclosed above, none of the directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which are required (a) to be recorded in the register maintained by the Company under section 352 of the SFO; or (b) to be notified to the Company and the Stock Exchange pursuant to the SFO or the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 30 September 2010, so far as was known to the directors of the Company, the following persons (not being directors or chief executives of the Company) had, or were deemed to have, interests and long positions in the Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and were recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of shareholders	Number of shares — long position	Percentage of share capital (%)	Derivative interests	
			Number of underlying shares — long position	Percentage of share capital to issued capital at 30 September 2010 (%)
Lee Yuk Lun	219,298,244	8.08	—	—
Au Yeung Kai Wah	150,625,000	5.55	—	—
Cyberland (China) Limited	—	—	2,379,069,767 (Note (a) and (b))	87.67
Jingquan Yinzi	30,000,000	1.11	2,379,069,767 (Note (a) and (e))	87.67
Shan Xiaochang	2,450,000	0.09	2,379,069,767 (Note (a), (c) and (d))	87.67
Eagle Bliss Limited	—	—	2,379,069,767 (Note (a), (c) and (e))	87.67
Rise Enterprises Limited	—	—	2,379,069,767 (Note (a) and (b))	87.67
Stepwise International Holdings Limited	—	—	2,379,069,767 (Note (a), (b) and (d))	87.67
Wealth Way Investment Limited	—	—	365,581,397 (Note (a), (b) and (e))	13.47
Wu Zhongxin	—	—	213,835,116 (Note (a) and (c))	7.87

Notes:

- The interests refer to the same parcel of shares.
- Cyberland (China) Limited is legally and beneficially owned as to 45%, 40% and 15% by Rise Enterprises Limited (“Rise Enterprises”), Stepwise International Holdings Limited (“Stepwise”) and Wealth Way Investment Limited (“Wealth Way”), respectively.
- Rise Enterprises is legally and beneficially owned as to 32.5%, 42.5% and 19.5% by Mr. Shan Xiaochang (“Mr. Shan”), Eagle Bliss Limited (“Eagle Bliss”) and Wu Zhongxin respectively.
- Stepwise is legally and beneficially wholly owned by Mr. Shan.
- Miss Jingquan Yinzi also holds derivative interests of the Company through her 100% interests in Wealth Way and Eagle Bliss.

Save as disclosed above and in the above section headed “Directors’ and Chief Executives’ interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation”, the Company had not been notified of any other interests and short positions in the issued share capital of the Company to be recorded under Section 336 of the SFO as at 30 September 2010.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months and six months ended 30 September 2010. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s listed securities during the three months and six months ended 30 September 2010.

## CORPORATE GOVERNANCE PRACTICES

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review, with the exception of the deviation in respect of the appointment term of non-executive directors.

Under code provision A4.1, non-executive directors should be appointed for specific term. There is no specific term of appointment of the non-executive directors of the Company, however, they are subject to retirement by rotation in accordance with Bye-laws of the Company. Accordingly the Company considers that sufficient measures have been taken to deal with the requirement in respect of the appointment terms of non-executive directors as required under the code provision.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company continued to adopt a code of conduct regarding securities transactions by directors 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 also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors.

## COMPETING BUSINESS

None of the directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which compete or may compete with the business of the Group.

## AUDIT COMMITTEE

The Company has established an audit committee comprising three independent non-executive directors and has adopted the terms of reference governing the authority and duties of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group. This report has been reviewed by the audit committee.

On Behalf of the Board  
**Wong Man Hung Patrick**  
*Chairman*

*As of the date of this report, the executive directors of the Company are Mr. Wong Man Hung Patrick, Mr. Law Kwok Leung, Mr. Feng Xiao Ping and Mr. Stephen William Frostick, the independent non-executive directors are Mr. Sousa Richard Alvaro, Mr. Lee Chi Hwa Joshua and Ms. Chan Mei Bo Mabel.*

Hong Kong, 12 November 2010