



CODE AGRICULTURE (HOLDINGS) LIMITED

科地農業控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8153)

**FIRST QUARTERLY REPORT
2011**

Three months ended
30 June 2011

**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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of Code Agriculture (Holdings) Limited collectively and individually accept full responsibility, includes particular 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 enquires, 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.

QUARTERLY RESULTS

The board of directors (the “Board”) of Code Agriculture (Holdings) Limited (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30 June 2011 together with comparative figures for the previous year are as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June

	Note	2011 HK\$'000	2010 HK\$'000 (Restated)
Revenue	2	238,126	191,030
Cost of sales and services		<u>(168,844)</u>	<u>(138,978)</u>
Gross profit		69,282	52,052
Other revenue	2	839	412
Distribution costs		(4,807)	(4,029)
Administrative expenses		<u>(21,615)</u>	<u>(24,846)</u>
Profit from operations		43,699	23,589
Finance costs		(13,795)	(8,530)
Other gain/(loss)	3	319	(3,617)
Impairment loss on other intangible assets	4	<u>(20,000)</u>	<u>—</u>
Profit before income tax		10,223	11,442
Income tax expense	5	<u>(1,437)</u>	<u>(4,216)</u>
Profit for the period		8,786	7,226
Other comprehensive income			
Exchange differences on translating foreign operations		<u>4,486</u>	<u>(23)</u>
Total comprehensive income for the period		<u>13,272</u>	<u>7,203</u>
Profit attributable to:			
— Owners of the Company		8,555	7,631
— Non-controlling interests		<u>231</u>	<u>(405)</u>
		<u>8,786</u>	<u>7,226</u>
Total comprehensive income attributable to:			
— Owners of the Company		12,749	7,617
— Non-controlling interests		<u>523</u>	<u>(414)</u>
		<u>13,272</u>	<u>7,203</u>
Earnings per share — basic (HK cents per share)	7	<u>0.32</u>	<u>0.28</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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 Reserve HK\$'000	Subtotal HK\$'000	Non-Controlling Interests HK\$'000	Total HK\$'000
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	315	3,623	—	—	—	—	—	—	3,938	—	3,938
Total comprehensive income for the period	—	—	7,631	—	—	—	(14)	—	7,617	(414)	7,203
At 30 June 2010	<u>26,988</u>	<u>1,038,989</u>	<u>(629,189)</u>	<u>(197)</u>	<u>26,062</u>	<u>15,882</u>	<u>78</u>	<u>437,793</u>	<u>916,406</u>	<u>4,914</u>	<u>921,320</u>
At 1 April 2011	27,138	1,056,184	(861,808)	(197)	26,062	9,774	20,772	427,825	705,750	27,757	733,507
Total comprehensive income for the period	—	—	8,555	—	—	—	4,194	—	12,749	523	13,272
At 30 June 2011	<u>27,138</u>	<u>1,056,184</u>	<u>(853,253)</u>	<u>(197)</u>	<u>26,062</u>	<u>9,774</u>	<u>24,966</u>	<u>427,825</u>	<u>718,499</u>	<u>28,280</u>	<u>746,779</u>

Notes:

- (a) The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the shares issued by the Company in exchange thereof pursuant to the Group reorganization on 20 March 2001 as set out in the prospectus of the Company dated 26 March 2001.

NOTES TO THE UNAUDITED CONSOLIDATED ACCOUNTS:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, these accounts include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The unaudited consolidated accounts 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 2011. The consolidated results are unaudited but have been reviewed by the Company's audit committee.

2. REVENUE AND OTHER REVENUE

The Group is principally engaged in the research and development, manufacture, sales and provision of marketing and technical supportive service of modern agricultural technologies and products in the People's Republic of China (the "PRC"). Its modern tobacco agricultural business covers extensive aspects, including tobacco leaf, agricultural equipment and machinery, construction, new form of energy, nursery greenhouse, fertilizer, pesticide, biotechnology and other related professional services. The Group's other businesses include the development of digital television system platform and sales of cordyceps related and other healthcare products in the PRC.

An analysis of the Group's Revenue and other revenue for the period are as follows:

	For the three months ended 30 June	
	2011 HK\$'000	2010 HK\$'000 (Restated)
Revenue		
Sales of agricultural machinery	235,059	190,553
Sales of fertilizer	1,108	1
Construction contract revenue	696	—
Provision of TV digitalisation related services	477	472
Sales of cordyceps related and other healthcare products	786	4
	<u>238,126</u>	<u>191,030</u>
Other Revenue		
Interest income	518	237
Sundry income	321	175
	<u>839</u>	<u>412</u>

3. OTHER GAIN/(LOSS)

	For the three months ended 30 June	
	2011 HK\$'000	2010 HK\$'000
Fair value gain/(loss) on financial assets at fair value through profit or loss	<u>319</u>	<u>(3,617)</u>

4. IMPAIRMENT LOSS ON OTHER INTANGIBLE ASSETS

For the three months ended 30 June 2011, the impairment loss on other intangible assets are related to the technology rights owned by Kang Yuan Universal Investment Limited and its subsidiaries.

There is no impairment loss on other intangible assets for the three months ended 30 June 2010.

5. 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.

	For the three months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Hong Kong profits tax	—	—
PRC enterprise income tax	5,822	4,216
	<u>5,822</u>	<u>4,216</u>
Deferred tax		
— Current period	(4,385)	—
	<u>1,437</u>	<u>4,216</u>

Notes:

No provision for Hong Kong profits tax has been made in these accounts as there was no estimated assessable profit for the period (2010: Nil).

In accordance with the relevant tax laws in the PRC, the subsidiaries of the Company in the PRC are subject to an enterprise income tax rate of 25% (2010: 25%) for its taxable income. However, in accordance with the relevant tax laws in the PRC, a subsidiary of the Company is exempted from enterprise 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 year of 2011 is the fourth profit-making years of that subsidiary and accordingly, the applicable income tax rate for the subsidiary is 12.5% for the year. In addition, one of subsidiaries of the Company had been designated as a high-tech enterprise and its PRC enterprise income tax rate was reduced from 25% to 15% in accordance to the relevant tax laws in the PRC. The remaining subsidiaries of the Company in the PRC are subject to PRC enterprise income tax at 25% for their taxable income.

6. DISCOUNTING OPERATION

There is no discounting operation for the three months ended 30 June 2011.

During the three months ended 30 June 2010, the Company discontinued the operations of the pre-mastering and other media services, audiovisual playout services and direct TV sales segments in order to concentrate its financial and human resources on its high growth businesses.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the consolidated profit attributable to owners for the period of approximately HK\$8,555,000 (2010: HK\$7,631,000) and on the weighted average of 2,713,798,000 (2010: 2,695,749,000) ordinary shares in issue during the period.

No diluted earnings per share for the period ended 30 June 2011 and 2010 has been presented, the computation of diluted earnings per share does not assume the exercise of the Company outstanding options and convertible bonds since their exercise price and conversion price were higher than the average market price of the Company's shares for the periods.

8. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2011 (2010: Nil).

9. COMPARATIVE FIGURES

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

10. EVENT AFTER THE REPORTING PERIOD

There are no material subsequent events after the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business review

During the period under review, the Group is principally engaged in sales of agricultural machinery, fertilizer and construction business, TV digitalisation related business and cordyceps related and other healthcare products business.

For the three months ended 30 June 2011, the Group recorded a revenue of approximately HK\$238,126,000, representing an increase of 24.7% as compared to the correspondent period of last year. Among which the total revenue of sales of the agricultural machinery, fertilizer and construction contract revenue totally increased to HK\$236,863,000 (2010: HK\$190,554,000) as a result of the increased sales volume, which totally representing 99.5% (2010: 99.8%) of the Group's total revenue for the period. The revenue from provision of TV digitalisation related services remain stable in comparing to the correspondent period of last year at approximately HK\$477,000 (2010: HK\$472,000). Revenue from sales of cordyceps related and other healthcare products was HK\$786,000 (2010: HK\$4,000). Revenue from these two divisions together representing 0.5% (2010: 0.2%) of the Group's total revenue for the period.

For the three months ended 30 June 2011, the Group recorded a gross profit of approximately HK\$69,282,000 (2010: HK\$52,052,000), representing an increase of 33.1% over the correspondent period of last year. The gross profit ratio for the period is recorded at improved 29.1% in comparing with 27.2% for the correspondent period of last year, mainly due to tightening of the product costs control and focusing on the high margin products during the period.

For the three months ended 30 June 2011, distribution costs and administrative expenses were HK\$4,807,000 and HK\$21,615,000 respectively (2010: HK\$4,029,000 and HK\$24,846,000). The increased distribution costs was mainly due to the increased sales volume and the decreased administrative expenses was mainly due to the effective cost control imposed during the period. Finance costs was HK\$13,795,000, representing an increase of 61.7% as compared to the correspondent period of last year's HK\$8,530,000, mainly due to the continuous uprising loan interest rate in the PRC during the period.

For the three months ended 30 June 2011, impairment loss on other intangible assets amounted to HK\$20,000,000 (2010: Nil), representing an one-off provision of impairment for the technology rights.

For the three months ended 30 June 2011, other comprehensive income which is arising from exchange differences on translating foreign operations amounted to HK\$4,486,000 (2010: loss of HK\$23,000).

During the review period, the profit attributable to owners of the Company of approximately HK\$8,555,000 (2010: HK\$7,631,000), a slightly increase of 12.1% as compared to the correspondent period of last year.

At 28 February 2011, the Group entered into a memorandum of understanding with an independent third party in relation to a potential acquisition of 70% equity interest of a company engaged in the research, production and distribution of tobacco related business in the PRC. The proposed transaction is subject to the signing of a formal agreement. Further announcement in respect of the progress of the proposed transaction will be made by the Company as and when appropriate.

At 8 April 2011, an indirect wholly-owned subsidiary of the Company entered into an asset transfer agreement with a connected person of the Company to dispose certain properties and equipment with a total consideration of approximately RMB138,000,000 (the "Disposal"). A special resolution relating to the Disposal was duly passed by the independent shareholders of the Company on 18 May 2011. At the date of the report, the Disposal is not completed.

Prospects

Looking ahead, the Group will continue to focus on the profitable tobacco related modern agricultural business and further extend its products and services to the following areas such as comprehensive usage of biomass energy, tobacco-specific pesticide, fertilizer and tobacco-specific professional services. The Group believes the further expansion in the Group's tobacco related modern agricultural arm will help to facilitate the Group's long term business development, improve the farmer's income and their living standard and maintain social stability in the PRC.

In addition, upon the disposal of certain properties and equipment in related to the Group's fertilizer business, the management of the Group will continue with its cautious approach in evaluating the new investment opportunities in tobacco-related modern agricultural business that in line with the Company's long term development strategy, to ensure a bright prospect to the shareholders.

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 June 2011, the interests and short positions of the directors and chief executives of the Company in the share of HK\$0.01 each in the share capital of the Company (the "Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Future Ordinance (the "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) Long positions in the ordinary shares of the Company

Name of director	Capacity and nature of interest	Number of Shares and underlying Shares held	Approximate percentage of the Company's issued share capital
Ms. Jingquan Yingzi	Interests held by controlled corporation and beneficial owner	2,422,949,767 (notes (a) and (b))	89.28%
Mr. Wong Man Hung Patrick	Beneficial owner	25,000,000	0.92%
Mr. Shan Xiaochang	Interests held by controlled corporation and beneficial owner	2,381,519,767 (notes (a) and (b))	87.76%
Mr. Feng Xiaoping	Interests held by controlled corporation	31,718,750 (note (c))	1.17%

Notes:

(a) 2,379,069,767 underlying Shares are held by Cyberland (China) Limited, which is legally and beneficially owned as to 45% and 40% by Rise Enterprises Limited ("Rise Enterprises") and Stepwise International Holdings Limited ("Stepwise") respectively.

Rise Enterprises is legally and beneficially owned as to 32.5% and 42.5% by Mr. Shan Xiaochang ("Mr. Shan") and Eagle Bliss Limited ("Eagle Bliss") respectively.

Stepwise is legally and beneficially wholly owned by Mr. Shan.

Ms. Jingquan Yingzi also holds derivative interests of the Company through her 100% interests in Eagle Bliss.

(b) The interests refer to the same parcel of shares.

(c) 31,718,750 Shares are held by Sino Unicom Technology Limited ("Sino Unicom"), a company in which Mr. Feng Xiao Ping has an indirect interest of 51% therein.

Save as disclosed above, as at 30 June 2011, none of the directors or chief executives 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 June 2011, so far as it 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 & 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 June 2011 (%)
Mr. Lee Yuk Lun	219,298,244	8.08	—	—
Cyberland (China) Limited	—	—	2,379,069,767 <i>(notes (a) and (b))</i>	87.67
Eagle Bliss Limited	—	—	2,379,069,767 <i>(notes (a), (c) and (e))</i>	87.67
Rise Enterprises Limited	—	—	2,379,069,767 <i>(notes (a) and (b))</i>	87.67
Stepwise International Holdings Limited	—	—	2,379,069,767 <i>(notes (a), (b) and (d))</i>	87.67
Ms. Wu Shuhua	—	—	2,381,519,767 <i>(note (f))</i>	87.76

Notes:

- (a) The interests refer to the same parcel of shares.
- (b) Cyberland (China) Limited is legally and beneficially owned as to 45% and 40% by Rise Enterprises and Stepwise respectively.
- (c) Rise Enterprises is legally and beneficially owned as to 32.5% and 42.5% by Mr. Shan and Eagle Bliss respectively.
- (d) Stepwise is legally and beneficially wholly owned by Mr. Shan.
- (e) Ms. Jingquan Yingzi also holds derivative interests of the Company through her 100% interests in Eagle Bliss.
- (f) Ms. Wu Shuhua is the spouse of Mr. Shan. By virtue of the SFO, Ms. Wu Shuhua is also deemed to be interested in all Shares in which Mr. Shan is interested and/or deemed to be interested.

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 or short positions in the issued share capital of the Company to be recorded under Section 336 of the SFO as at 30 June 2011.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months ended 30 June 2011. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s listed securities during the three months ended 30 June 2011.

CORPORATE GOVERNANCE PRACTICES

The Company’s corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the period ended 30 June 2011, with the exception of the deviation in respect of the appointment term of non-executive directors as mentioned below.

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 has adopted a code of conduct regarding Director’s securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct regarding securities transactions by the Directors for the period ended 30 June 2011.

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 that competed 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
Jingquan Yingzi
Chairman

Hong Kong, 11 August 2011

As at the date of this report, the executive directors of the Company are Ms. Jingquan Yingzi, Mr. Wong Man Hung Patrick, Mr. Shan Xiaochang, Mr. Wu Zhongxin, Mr. Feng Xiaoping and Mr. Stephen William Frostick; the non-executive director is Prof. Liu Guoshun; and the independent non-executive directors are Mr. Sousa Richard Alvaro, Mr. Lee Chi Hwa Joshua and Ms. Chan Mei Bo Mabel.