



CODE AGRICULTURE (HOLDINGS) LIMITED

科地農業控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8153)

**THIRD QUARTERLY REPORT
2012**

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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 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.

QUARTERLY RESULTS

The board of directors (the “Board”) of Code Agriculture (Holdings) Limited (the “Company”) hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 31 December 2012, together with comparative unaudited figures for the corresponding periods in 2011, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — UNAUDITED

For the three months and nine months ended 31 December

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2012 HK\$'000	2011 HK\$'000 (Restated)	2012 HK\$'000	2011 HK\$'000 (Restated)
Turnover	2	107,051	57,903	647,071	506,362
Cost of sales and services		(105,800)	(41,809)	(502,552)	(358,748)
Gross profit		1,251	16,094	144,519	147,614
Other revenue	3	2,134	4,396	6,754	5,717
Distribution costs		(28,939)	(11,204)	(50,084)	(33,912)
Administrative expenses		(31,396)	(27,613)	(72,464)	(74,839)
Profit/(loss) from operations		(56,950)	(18,327)	28,725	44,580
Finance costs	4	(8,654)	(8,033)	(25,075)	(24,076)
Other losses	5	(1,735)	—	(1,731)	(22)
Share of (loss)/profit of an associate		—	394	(681)	394
Gain on disposal of subsidiaries	6	—	—	—	3,392
Loss on deconsolidation of subsidiaries	7	—	(2,763)	—	(2,763)
Loss on disposal of interest in an associate	8	—	—	(1,504)	—
Gain on disposal of assets held for sale	9	—	—	67,204	—
Impairment loss on other intangible assets	10	—	—	—	(20,000)
Profit/(loss) before income tax	11	(67,339)	(28,729)	66,938	1,505
Income tax (expense)/credit	12	9,862	2,716	(10,227)	(1,570)
Profit/(loss) for the period		(57,477)	(26,013)	56,711	(65)
Other comprehensive income, net of income tax					
Exchange differences on translating foreign operations		(298)	(942)	(561)	10,240
Total comprehensive income for the period		(57,775)	(26,955)	56,150	10,175
Profit/(loss) for the period attributable to:					
— Owners of the Company		(56,467)	(26,418)	58,800	(2,968)
— Non-controlling interests		(1,010)	405	(2,089)	2,903
		(57,477)	(26,013)	56,711	(65)
Total comprehensive income attributable to:					
— Owners of the Company		(56,765)	(27,078)	58,239	7,087
— Non-controlling interests		(1,010)	123	(2,089)	3,088
		(57,775)	(26,955)	56,150	10,175
Earnings/(loss) per share attributable to the owners of the Company					
— Basic and diluted — HK cents per share	14	(2.08)	(0.97)	2.17	(0.11)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

	Attributable to owners of the Company										
	Share Capital HK\$'000	Share Premium HK\$'000	Accumulated Losses HK\$'000	Merger Reserve HK\$'000 (note)	Capital Reserve HK\$'000	Share-based Payment Reserve HK\$'000	Exchange Reserve HK\$'000	Convertible Bond Reserve HK\$'000	Subtotal HK\$'000	Non-Controlling Interests HK\$'000	Total HK\$'000
As at 1 April 2012	27,138	1,056,184	(903,138)	(197)	33,014	9,499	36,433	427,825	686,758	(497)	686,261
Share option scheme:											
— lapse of share option	—	—	9,499	—	—	(9,499)	—	—	—	—	—
— value of services	—	—	—	—	—	8,041	—	—	8,041	—	8,041
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	6,065	6,065
Redemption of convertible bond	—	—	—	—	—	—	—	(68,021)	(68,021)	—	(68,021)
Transaction with owners	—	—	9,499	—	—	(1,458)	—	(68,021)	(59,980)	6,065	(53,915)
Profit for the period	—	—	58,800	—	—	—	—	—	58,800	(2,089)	56,711
Other comprehensive income	—	—	—	—	—	—	(561)	—	(561)	—	(561)
Total comprehensive income for the period	—	—	58,800	—	—	—	(561)	—	58,239	(2,089)	56,150
As at 31 December 2012	27,138	1,056,184	(834,839)	(197)	33,014	8,041	35,872	359,804	685,017	3,479	688,496
As 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
Share option scheme:											
— value of services	—	—	—	—	—	456	—	—	456	—	456
Deconsolidation of subsidiaries	—	—	214	—	—	—	(214)	—	—	(21,046)	(21,046)
Transaction with owners	—	—	214	—	—	456	(214)	—	456	(21,046)	(20,590)
Loss for the period	—	—	(2,968)	—	—	—	—	—	(2,968)	2,903	(65)
Other comprehensive income	—	—	—	—	—	—	10,055	—	10,055	185	10,240
Total comprehensive income for the period	—	—	(2,968)	—	—	—	10,055	—	7,087	3,088	10,175
As at 31 December 2011	27,138	1,056,184	(864,562)	(197)	26,062	10,230	30,613	427,825	713,293	9,799	723,092

Note:

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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, requirements of the Hong Kong Companies Ordinance and applicable disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the Group’s financial statements for the year ended 31 March 2012. The condensed consolidated financial statements for three months and nine months ended 31 December 2012 are unaudited but have been reviewed by the audit committee of the Company.

Change in presentation of condensed consolidated statement of comprehensive income

In the current period, the directors of the Company (“Directors”) decided to change the classification of certain line items in the unaudited condensed consolidated statement of comprehensive income to better reflect the relevance of financial information of the Group’s activities. Prior period figures have been re-presented to reflect the new presentation. The reclassification has had no net effect on the results of the Group for the three months and nine months ended 31 December 2011.

The effect of change in presentation for the prior periods by line items presented in the condensed consolidated statement of comprehensive income is as follows:

	Unaudited Three months ended 31 December 2011			Unaudited Nine months ended 31 December 2011		
	Originally Stated	Adjustments	Restated	Originally Stated	Adjustments	Restated
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Cost of sales and services	(46,960)	5,151	(41,809)	(376,975)	18,227	(358,748)
Gross profit	10,943	5,151	16,094	129,387	18,227	147,614
Distribution costs	(6,053)	(5,151)	(11,204)	(15,685)	(18,227)	(33,912)
	<u>(42,070)</u>	<u>(5,151)</u>	<u>(47,221)</u>	<u>(367,273)</u>	<u>(18,227)</u>	<u>(385,500)</u>

2. TURNOVER — UNAUDITED

The principal activities of the Group are manufacturing and sale of tobacco machinery products, sale of tobacco fertilizer and pesticide products, construction, provision of digital television services and manufacturing and sale of healthcare products in the People Republic of China (the “PRC”).

An analysis of the Group’s turnover is as follows:

	Three months ended 31 December		Nine months ended 31 December	
	2012	2011	2012	2011
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sales of agricultural machinery and provision of construction services	101,285	54,042	615,380	472,697
Sales of fertilizer and pesticide	3,573	2,647	26,438	29,305
Provision of digital television services	2,173	1,191	4,859	3,463
Sales of cordyceps-related and other healthcare products	20	23	394	897
	<u>107,051</u>	<u>57,903</u>	<u>647,071</u>	<u>506,362</u>

3. OTHER REVENUE — UNAUDITED

	Three months ended 31 December		Nine months ended 31 December	
	2012	2011	2012	2011
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Interests income	1,786	4,338	6,275	5,602
Dividend income from listed securities	—	—	—	32
Government grants	—	—	123	—
Sundry income	348	58	356	83
	<u>2,134</u>	<u>4,396</u>	<u>6,754</u>	<u>5,717</u>

The government grants mainly included those received for investments in Jiangsu provinces in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

4. **FINANCE COSTS — UNAUDITED**

	Three months ended		Nine months ended	
	31 December		31 December	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interests on bank loans wholly repayable within five years	3,639	4,217	11,865	18,338
Interests on other loans	1,901	1,139	5,334	3,248
Reversal of interest expenses over-provided in prior year	—	—	—	(5,541)
Effective interest expenses on convertible bond	3,114	2,677	7,876	8,031
	<u>8,654</u>	<u>8,033</u>	<u>25,075</u>	<u>24,076</u>

5. **OTHER LOSSES — UNAUDITED**

	Three months ended		Nine months ended	
	31 December		31 December	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss on disposal of financial assets at fair value though profit and loss	—	—	4	(22)
Impairment loss on property, plant and equipment	(500)	—	(500)	—
Impairment loss on inventories	(1,235)	—	(1,235)	—
	<u>(1,735)</u>	<u>—</u>	<u>(1,731)</u>	<u>(22)</u>

6. **GAIN ON DISPOSAL OF SUBSIDIARIES — UNAUDITED**

With reference to the notes 26 in the Interim Report 2011 of the Company, the Group disposed of its entire interest in two wholly-owned subsidiaries, namely M21 Mastertech Company Limited and M21 Dicast Company Limited which were dormant since 2010, for an aggregate consideration of HK\$5. A gain on disposal of subsidiaries amounting to HK\$3,392,000 was recorded.

7. **LOSS ON DECONSOLIDATION OF SUBSIDIARIES — UNAUDITED**

With reference to the notes 6 in the Third Quarterly Report 2011 of the Company, the Group disposed of a total 31% equity interests in Xian Shenghua Electronic Engineering Company Limited (西安聖華電子工程有限公司) and its wholly owned subsidiary, Xuchang Tongxia Modern Agricultural Technology Limited (許昌同興現代農業科技有限公司), together as “Xian Shenghua Group” to two independent third parties. Following the disposal of its 31% equity interest in Xian Shanghua Group, the Group’s equity interest in Xian Shenghua Group has reduced to 20% from 51%. The remaining interests in Xian Shanghua Group were re-classified as interests in associates and using the equity method accounted for in the Group’s consolidated financial statements subsequent thereto. A loss on deconsolidation of subsidiaries amounting to HK\$2,763,000 was recorded.

8. **LOSS ON DISPOSAL OF INTEREST IN AN ASSOCIATE — UNAUDITED**

The Group held 20% equity interest in Xian Shenghua which held the entire interest in Xian Shenghua Group.

On 10 May 2012, the Group disposed of its entire interest in Xian Shenghua to an independent third party for proceeds of RMB6,000,000 (equivalent to HK\$7,407,000) and a disposal loss was recognized. The calculation is as follows:

	Nine months ended 31 December 2012 HK\$'000
Consideration received in cash	7,407
Less: Carrying amounts	<u>(8,911)</u>
Loss on disposal of interest in an associate	<u>(1,504)</u>

9. GAIN ON DISPOSAL OF ASSETS HELD FOR SALE — UNAUDITED

On 29 May 2012, the Group has completed a transaction in relation to the disposal of its certain prepaid land lease payments and property and equipment which were classified as assets held for sale in the Annual Report 2012. Net sales proceed from the disposal is settled by the convertible bond which was issued by the Company to Cyberland (China) Limited, a substantial shareholder of the Company, on 25 March 2010. A disposal gain is arrived as follows:

	Nine months ended 31 December 2012 HK\$'000
Net sales proceed	170,635
Less: Carrying amounts	(102,837)
Exchange difference	(594)
	<u>67,204</u>
Gain on disposal of assets held for sale	<u><u>67,204</u></u>

10. IMPAIRMENT LOSS ON OTHER INTANGIBLE ASSETS — UNAUDITED

For the nine months ended 31 December 2011, the impairment loss on other intangible assets was related to the technology rights owned by Kang Yuan Universal Investment Limited, a wholly owned subsidiary of the Company, which holds 100% equity interest of Jiangsu Kedi Modern Agricultural Company Ltd (“Jiangsu Kedi”) and its subsidiaries. During the last financial year, certain technologies owned by Jiangsu Kedi were contributed to the State Tobacco Monopoly Administration for the newly established industry standards of the intensive flue-curing machinery. Accordingly, the Company made provision for impairment on the technologies amounting to HK\$20,000,000.

11. PROFIT/(LOSS) BEFORE INCOME TAX — UNAUDITED

	Three months ended 31 December		Nine months ended 31 December	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
(a) Staff costs				
Contributions to defined contribution retirement plans	794	742	1,835	1,925
Salaries, wages and other benefits	18,278	11,700	36,364	36,393
Employee share option expenses	610	456	610	456
	<u>19,682</u>	<u>12,898</u>	<u>38,809</u>	<u>38,774</u>
(b) Other items				
Amortisation				
— club membership	2	1	6	5
— prepaid land lease payments	45	65	179	196
— technologies	6,580	6,580	19,739	19,739
Cost of goods sold	76,980	36,077	439,570	330,832
Depreciation	642	1,619	4,688	4,821
Impairment loss on other intangible assets	—	—	—	20,000
Operating lease charges: minimum lease payments				
— hire of building	2,111	1,155	4,682	4,289
— hire of plant and equipment	17	15	46	44
Research and development costs	1,695	1,568	4,337	4,069
	<u>1,695</u>	<u>1,568</u>	<u>4,337</u>	<u>4,069</u>

12. INCOME TAX (EXPENSE)/CREDIT — UNAUDITED

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.

	Three months ended 31 December		Nine months ended 31 December	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Current tax				
Hong Kong Profits Tax	—	—	—	—
PRC Enterprise Income Tax				
— Current period	8,776	(578)	(6,348)	(10,335)
— Over-provision in prior period	—	2,208	—	2,208
	<u>8,776</u>	<u>1,630</u>	<u>(6,348)</u>	<u>(8,127)</u>
Deferred tax				
Revaluation of properties and technologies	1,086	1,086	(3,879)	6,557
	<u>9,862</u>	<u>2,716</u>	<u>(10,227)</u>	<u>(1,570)</u>

No provision for Hong Kong Profits Tax has been made in the financial statements of subsidiaries in Hong Kong as there were no estimated assessable profits for the nine months ended 31 December 2012 and 31 December 2011.

Under the PRC Enterprise Income Tax Law (the “EIT Law”) and respective implementation regulation, the tax rate applicable to the Company’s subsidiaries in PRC is 25% (31 December 2011: 25%) on taxable income. However, in accordance with the relevant EIT Law, a PRC subsidiary is exempted from 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 2012 is the fifth profit-making years of that subsidiary and accordingly, the applicable income tax rate is 12.5% (31 December 2011: 12.5%) for the period. In addition, another subsidiary in PRC had been designated as a high-tech enterprise and its tax rate was reduced from 25% to 15%. Other PRC subsidiaries are subject to income tax at 25% (31 December 2011: 25%) for their taxable income.

13. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 December 2012 (31 December 2011: Nil).

14. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO THE OWNER OF THE COMPANY — UNAUDITED

The calculation of the basic and diluted earnings/(loss) per share attributable to the owners of the Company is based on the following data:—

	Three months ended 31 December		Nine months ended 31 December	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Profit/(loss)				
Profit/(loss) attributable to the owners of the Company	<u>(56,467)</u>	<u>(26,418)</u>	<u>58,800</u>	<u>(2,968)</u>
	2012 '000	2011 '000	2012 '000	2011 '000
Number of shares				
Weighted average number of shares for the purpose of basic earnings/(loss) per share	<u>2,713,798</u>	<u>2,713,798</u>	<u>2,713,798</u>	<u>2,713,798</u>

Basic and diluted earnings/(loss) per share for the three months and nine months ended 31 December 2012 and 31 December 2011 have been presented as equal because the exercise prices of the Company’s share options were higher than the average market price for the year and was therefore considered as anti-dilutive.

15. COMPARATIVE FIGURES

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to report that the Group's result for the period demonstrated the management's continuous efforts in the development of the Group's business. For the nine months ended 31 December 2012, the Group's turnover increased by 27.8% to HK\$647,071,000 (2011: HK\$506,362,000) compared to the same period last year, which was primarily contributed by continuous business growth from the Group's core operations, namely, tobacco agricultural operation.

BUSINESS REVIEW

Tobacco agricultural operation

The tobacco agricultural operation represented 99.2% of total turnover, and increased by 27.9% to HK\$641,818,000 (2011: HK\$502,002,000). This operation continued to gain market share throughout the period under review and its margin continued to hold up. There is strong market demand on the Group's core product — flue-curing machinery products "KH" series.

Following the acquisition of 50.5% equity interest of Henan Baorong Biological Technology Company Limited ("Henan Baorong"), a company mainly engaged in bio-fertilizer production business, at consideration of RMB5,050,000 (equivalent to approximately HK\$6,234,000), on 31 October 2012, Henan Baorong has since contributed revenue of approximately HK\$1.7 million to the Group for the period under review. The acquisition has broadened the Group's product spectrum and could bring synergy effect as well.

Digital television operation

The digital television operation represented 0.7% of total turnover, and increased by 40.3% to HK\$4,859,000 (2011: HK\$3,463,000). The performance of this operation is gradually improving due to the rising advertising income along with the partial unlocked scientific channel in Hunan Province, PRC. It is expected this operation will continue to sustain a healthy growth for the last quarter of financial year.

Healthcare products operation

The healthcare products operation represented 0.1% of total turnover, and decreased by 56.1% to HK\$394,000 (2011: HK\$897,000). This operation was facing immense pressure from peer competition and rising operating costs. As the competitive pressure is unlikely to ease while the operating costs are likely standing high in forthcoming years, the path head of this operation is not expected to be optimistic. In light of this, the Group is now considering possible approaches to improve its performance, or alternatively, may consider disposing of it if opportunity arises.

SIGNIFICANT INVESTMENT

As at 31 December 2012, there was no significant investment held by the Group.

LEGAL PROCEEDINGS

Reference is made to the announcement of the Company on 28 January 2013 regarding the receipt of a winding-up petition (the "Winding-up Petition") by the Company on 25 January 2013, presented by Mr. Zhang Wei Bing (the "Petitioner") at the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (the "High Court") against the Company. The Winding-up Petition concerns a sum of HK\$51,230,100 arising from a Convertible Bond registered on 11 August 2010 with maturity date on the fifth anniversary of the issue date, issued by the Company to the Petitioner. The Winding-up Petition will be heard at the Court of First Instance of the High Court on 10 April 2013.

The Directors have instructed legal adviser to review the details of the Winding-up Petition and to provide further legal advice. The Directors are of the view that the Winding-up Petition will have certain impact on the financial position of Group if the order of the Winding-up Petition is granted by the court.

The Company is proactively dealing with the Winding-up Petition with a serious and cautious manner with a view to having it withdrawn. If any settlement is materialized, the Winding-up Petition may probably be withdrawn. The Company will keep its shareholders and the public informed on any significant development of the legal proceedings in respect of the Winding-up Petition and of its impact on the Group's operation and financial position and further announcement will be made when appropriate.

DISPOSALS

On 10 May 2012, the Group had entered into a share transfer agreement with an independent third party to dispose of its remaining 20% equity interest in Xian Shenghua for a consideration of RMB6,000,000 (equivalent to HK\$7,407,000). The transaction was completed on 16 May 2012 and a disposal loss of HK\$1,504,000 was recorded. The disposal is able to streamline the business model and strengthen the utilization of the Group's resources for a sustainable corporate development strategy.

On 29 May 2012, the Group has completed the disposal of certain prepaid land lease payments and property and equipment with an aggregate net carrying amount of HK\$102,387,000 and the net sale proceeds of which is settled by a convertible bond issued by the Company to Cyberland (China) Limited with an aggregate principal amount to HK\$170,600,000. A disposal gain of HK\$67,204,000 was thereby recorded.

PROSPECTS

As a leading player in the PRC's tobacco agricultural industry, one of the Group's business directions is to assist the continuous modernisation of the industry and to implement policies in the best interests of our shareholders, business partners, employees, and tobacco farmers in the PRC and other stakeholders. With a mature technical competence, products of quality and effective operational management team, the Group has established a sustainable development foundation, and a reputable branding with high quality within the tobacco agricultural industry in the PRC.

With an aim to maximise shareholders' long term return under global economic uncertainties, the Group will take a prudent and cautious approach to capture and evaluate possible business opportunities, and will continue to reinforce its leading position in the intensive fluecuring machinery, by streamlining its business model, aspiring further advancement in its product quality and innovation, and enhancing the Group's resources utilisation in an cost-effective approach.

The Group is cautiously optimistic and confident in its future performance as to the fact that a sustainable modernisation in the PRC's tobacco industry will drive a consolidation amid the industry participants and create additional business opportunities for the industry leading players.

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

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the ordinary share of HK\$0.01 each in the share capital of the Company (the "Shares"), underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and 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:—

Long positions in the Shares

Name of director	Capacity and nature of interest	Number of Shares and underlying Shares held	Approximate percentage of shareholding
Ms. Jingquan Yingzi	Interests held by controlled corporation and beneficial owner	2,027,546,744 (notes (a) and (b))	74.71%
Mr. Wong Man Hung Patrick	Beneficial owner	32,000,000	1.18%
Mr. Shan Xiaochang	Interests held by controlled corporation and beneficial owner	1,984,776,744 (note (a) and (b))	73.14%
Mr. Feng Xiaoping (note (c))	Interests held by controlled corporation	31,618,750	1.17%

Notes:

- (a) 1,982,326,744 underlying Shares are held by Cyberland (China) Limited, which is legally and beneficially owned as to 54.63% by Stepwise International Holdings Limited ("Stepwise"). Stepwise is legally and beneficially wholly owned by Mr. Shan Xiaochang ("Mr. Shan") an executive director of the Company.
- (b) The interests refer to the same parcel of underlying Shares.
- (c) 31,618,750 Shares are held by Sino Unicorn Technology Limited, a company in which Mr. Feng Xiaoping ("Mr. Feng") has an indirect interest of 51% therein. Mr. Feng has retired as an executive director of the Company with effect on 28 September 2012.

Save as disclosed above, as at 31 December 2012, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of GEM Listing Rules relating to securities transactions by Directors.

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

As at 31 December 2012, so far as was known to the Directors, the following persons (not being Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Name of shareholders	Number of Shares held (long position)	Percentage of Shareholding (%)	Derivative interests	
			Number of underlying Shares held (long position)	Percentage of Shareholding (%)
Mr. Lee Yuk Lun	219,298,244	8.08	—	
Cyberland (China) Limited			1,982,326,744 <i>(note (a) and (b))</i>	73.05
Stepwise International Holdings Limited			1,982,326,744 <i>(note (a), (b) and (d))</i>	73.05
Ms. Wu Shuhua			1,984,776,744 <i>(note (d))</i>	73.14

Notes:

- (a) The interests refer to the same parcel of underlying Shares.
- (b) Cyberland (China) Limited is legally and beneficially owned as to 54.63% by Stepwise.
- (c) Stepwise is legally and beneficially wholly owned by Mr. Shan.
- (d) Ms. Wu Shuhua is the spouse of Mr. Shan. By virtue of the SFO, Ms. Wu 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, no other person had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

During the period under review, the Company had; (a) resolved to cancel the old share options to subscribe for a total of 60,000,000 shares previously granted to certain consultants and full-time employees of the Group and; (b) offered to grant the new share options to subscribe for batch I of 60,000,000 shares and batch II of 142,000,000 shares. A total of 202,000,000 in aggregate new share options had been granted to the grantees as set out below in pursuant to Scheme II which was adopted and approved by a resolution of the shareholders of the Company with effect on 2 February 2009.

The movement of share options during the period under review is presented as follows:—

Name or category Of participants	Date of grant	Exercise price per share HK\$	Validity period	Number of share options				As at 31.12.2012
				As at 01.04.2012	Granted during the period	Exercised during the period	Lapsed during the period	
Consultants	10.12.2010	0.328	10.12.2010 to 09.12.2013	50,000,000	—	—	(50,000,000)	—
	03.10.2012	0.163	03.10.2012 to 02.10.2014	—	185,000,000	—	—	185,000,000
Employees	10.12.2010	0.328	10.12.2010 to 09.12.2013	10,000,000	—	—	(10,000,000)	—
	07.10.2011	0.170	07.10.2011 to 06.10.2016	7,000,000	—	—	(7,000,000)	—
Directors	03.10.2012	0.163	03.10.2012 to 02.10.2014	—	10,000,000	—	—	10,000,000
	03.10.2012	0.163	03.10.2012 to 02.10.2014	—	7,000,000	—	—	7,000,000
				<u>67,000,000</u>	<u>202,000,000</u>	<u>—</u>	<u>(67,000,000)</u>	<u>202,000,000</u>

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 (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The principles adopted by the Company emphasize a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the nine months ended 31 December 2012, with the exceptions of the deviation in respect of: (a) audit committee of the Company falls below the minimum number; and (b) communication with shareholders as mentioned below.

Following the resignation of Ms. Chan Mei Bo Mabel, an independent non-executive director, a member of audit committee, a member of remuneration committee and a member of nomination committee of the Company, on 27 April 2012, the Company had only two independent non-executive directors and two audit committee members, the number of which fell below the minimum number required under Rules 5.05(1) and 5.28 of the GEM Listing Rules until the Company appointed Mr. Zhao Zhizheng to fill in the vacancy on 26 July 2012.

Code provision E.1.2 of the Code specifies that the chairman of the Board should attend the annual general meeting. Ms. Jingquan Yingzi, the chairman of the Board has been heavily involved in the business operations of the Group. Despite her utmost intention to be present at the annual general meeting of the Company held on 28 September 2012 (the "AGM"), Ms. Jingquan was unable to attend the AGM due to other urgent business commitments of the Group. Mr. Wong Man Hung Patrick, an executive director of the Company, has taken the chair of the AGM thereat to be available to answer question to ensure effective communication with the shareholders of the Company.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company continued to adopt a code of conduct regarding Director's 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. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct regarding securities transactions by the Directors for the nine months ended 31 December 2012.

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 had established an audit committee on 20 March 2001 with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. The primary duties of the audit committee are to review the Group's annual report and accounts, half-year report and quarterly reports and provide advice and comments thereon to the Board and to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises three members, namely, Mr. Sousa Richard Alvaro, Mr. Lee Chi Hwa Joshua and Mr. Zhao Zhizheng. All of them are independent non-executive directors of the Company. The Group's unaudited condensed consolidated financial information for the nine months ended 31 December 2012 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the nine months ended 31 December 2012. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the nine months ended 31 December 2012.

On behalf of the Board
Code Agriculture (Holdings) Limited
Jingquan Yingzi
Chairman

Hong Kong, 6 February 2013