



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
2010

Three months ended
30 June 2010

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

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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.

QUARTERLY RESULTS

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

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2010

	<i>Note</i>	2010 HK\$'000	2009 <i>HK\$'000</i>
Revenue	2	191,030	2,150
Cost of sales		<u>(142,169)</u>	<u>(1,439)</u>
Gross profit		48,861	711
Other revenue	2	176	287
General, administrative and other expenses		(25,676)	(7,367)
Share-based payment		<u>—</u>	<u>(14,500)</u>
Profit/(Loss) from operations		23,361	(20,869)
Finance costs		(8,294)	(374)
Other (losses)/gain		<u>(3,617)</u>	<u>4,522</u>
Profit/(Loss) before income tax		11,450	(16,721)
Income tax expense	3	<u>(4,216)</u>	<u>—</u>
Profit/(Loss) for the period from continuing operations		7,234	(16,721)
Discontinuing operations			
Loss for the period from discontinuing operations	4	<u>(8)</u>	<u>(7,158)</u>
Profit/(Loss) for the period		7,226	(23,879)
Other comprehensive income			
Exchange differences on translating foreign operations		<u>(23)</u>	<u>(46)</u>
Total comprehensive income for the period		7,203	(23,925)
Profit/(Loss) attributable to:			
Owners of the Company		7,631	(23,114)
Minority interests		<u>(405)</u>	<u>(765)</u>
		7,226	(23,879)
Total comprehensive income attributable to:			
Owners of the Company		7,617	(23,156)
Minority interests		<u>(414)</u>	<u>(769)</u>
		7,203	(23,925)
Basic earnings/(loss) per share	5		
From continuing and discontinuing operations		0.28 HK cents	(1.29 HK cents)
From continuing operations		0.28 HK cents	(0.89 HK cents)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the three months ended 30 June 2010

	Attributable to owners of the Company										
	Share Capital HK\$'000	Share Premium HK\$'000	Accumulated Losses HK\$'000	Merger Reserve (Note a) 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 interests 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	750	21,035	—	—	—	—	—	—	21,785	—	21,785
Issue of share options	—	—	—	—	—	14,500	—	—	14,500	—	14,500
Total comprehensive income for the period	—	—	(23,114)	—	—	—	(42)	—	(23,156)	(769)	(23,925)
At 30 June 2009	<u>18,343</u>	<u>633,219</u>	<u>(390,603)</u>	<u>(197)</u>	<u>—</u>	<u>21,882</u>	<u>(332)</u>	<u>—</u>	<u>282,312</u>	<u>25,583</u>	<u>307,895</u>
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 option	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>

Note:

- (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 reorganisation on 20 March 2001 as set out in the prospectus of the Company dated 26 March 2001.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited consolidated results 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. Revenue

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”).

For the three months ended 30 June 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.

An analysis of the Group’s Revenue and other revenue for the period, for both continuing and discontinuing operations, are as follows:

	The Group 2010 HK\$'000	2009 HK\$'000
Revenue		
Continuing operations		
Sales of agricultural machinery	190,553	—
Sales of fertilizer	1	—
Provision of TV digitalisation related services	472	364
Sales of cordyceps-related product	4	1,786
	<u>191,030</u>	<u>2,150</u>
Discontinuing operations		
Provision of pre-mastering and other media services	—	3,321
Provision of audiovisual playout services	—	1,399
Direct television sales	—	551
	<u>—</u>	<u>5,271</u>
Total Revenue	<u>191,030</u>	<u>7,421</u>
Other revenue		
Interest income	1	1
Others	175	286
	<u>176</u>	<u>287</u>

3. 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 three months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Continuing operations		
Current taxation		
PRC corporate income tax	(4,216)	—
	<u><u> </u></u>	<u><u> </u></u>

4. Discontinuing operation

As at 30 June 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 three months ended 30 June 2010 together with the comparative figures for the corresponding period in 2009 are set out below.

	For the three months ended 30 June	
	2010	2009
	HK'000	HK'000
Revenue	—	5,271
Cost of sales	—	(5,346)
	<u> </u>	<u> </u>
Gross losses	—	(75)
Other revenue	—	1
General, administrative and other expenses	(8)	(7,042)
	<u> </u>	<u> </u>
Loss from operation	(8)	(7,116)
Finance costs	—	(42)
Other loss	—	—
	<u> </u>	<u> </u>
Loss before income tax	(8)	(7,158)
Income tax expenses	—	—
	<u> </u>	<u> </u>
Loss for the period from discontinued operations	<u><u> </u></u>	<u><u> </u></u>

5. Earnings/(Loss) per share

For continuing and discontinuing operations

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

	For the three months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
Earnings/(Loss)		
Earnings/(Loss) for the purpose of basic earnings/(loss) per share	7,631	(23,114)
	<u><u> </u></u>	<u><u> </u></u>
	2010	2009
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	2,695,749	1,791,166
	<u><u> </u></u>	<u><u> </u></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	2009
	HK\$'000	HK\$'000
Earnings/(Loss) for the period attributable to owners of the company	7,631	(23,114)
<i>Less:</i>		
(Loss) for the period from discontinuing operations	(8)	(7,158)
Earnings/(Loss) for the purpose of basic loss per share from continuing operations	<u><u> </u></u>	<u><u> </u></u>

From discontinuing operations

Basic earnings/(loss) per share for the discontinuing operations is HKNil cents per share (2009: HK0.4 cents per share) based on the loss for the period from the discontinuing operations of HK\$8,000 (2009: HK\$7,158,000).

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 ended 30 June 2010 and 2009 would result in reducing loss per share.

6. Comparative figures

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

7. Subsequent Events

On 7 July 2010, the Company issued 15,000,000 shares in principal amounts of HK\$1,875,000 to a consultant pursuant to exercise of share options granted under the share option scheme II of the Company.

QUARTERLY DIVIDEND

The Board does not recommend the payment of quarterly dividend for the three months ended 30 June 2010 (2009: Nil).

FINANCIAL AND BUSINESS REVIEW

For the three months ended 30 June 2010, the Group recorded a revenue of approximately HK\$191,030,000 (2009: approximately HK\$2,150,000) from continuing operations. The surge was mainly due to the full quarterly income generated from the newly acquired businesses of agricultural machinery.

During the review period, revenue from the agricultural machinery and fertiliser business amounted to approximately HK\$190,554,000 (2009: Nil), accounting for about 99.8% of the Group's revenue and the remaining contribution came from the provision of TV digitalisation related services was approximately HK\$472,000 (2009: HK\$364,000) and sales of cordyceps-related products was HK\$4,000 (2009: HK\$1,786,000).

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 ended 30 June 2010, revenue from Media Services amounted to HK\$Nil (2009: HK\$3,321,000).

Revenue from the Playout Services amounted to approximately HK\$Nil (2009: HK\$1,399,000) of the Group's Revenue.

Revenue from direct TV sales amounted to approximately HK\$Nil (2009: HK\$551,000).

The Group generated a gross profit of approximately HK\$48,861,000 (2009: HK\$711,000) from continuing operations and the gross profit margin has been dropped from 33% in 2009 to 26% 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 profit attributable to owners of the Company of approximately HK\$7,631,000 (2009: HK\$23,114,000 loss) from continuing and discontinuing operations.

BUSINESS PURSUITS AND PROSPECTS

The Group successfully acquired Kang Yuan Universal Investment Ltd ("Kang Yuan") and its subsidiaries ("Kang Yuan Group") in February 2010 which allowed the Group to diversify its business into modern tobacco agriculture in the PRC. The Group was also subsequently renamed as Code Agriculture to reflect the new business focus of the Group and completed all required registration in April 2010.

Kang Yuan Group was one of the first companies in China to engage in the tobacco leaf curing industry possessing a market share of over 35% and ranking first in sales volume among the major flue-curing machinery suppliers in 2009. Leveraging its abundant experience and expertise, the Group has become one of the leading players to provide a wide range of tobacco-related agricultural business.

Since 2008, the State Tobacco Monopoly Bureau introduced targets of energy conservation and emission reduction, which stated that 5-8% of energy consumption per unit of production value should be reduced including tobacco manufacturers. This policy has stimulated the demand for high efficiency of agricultural machinery and equipment, benefitting the Group as it steps up efforts to excel in the business.

Looking ahead, leveraging its solid foundation in the modern tobacco agricultural machinery industry, the Group plans to expand its business in the aspects of high-technology and environmental protection in modern agriculture. It will actively look for opportunities to invest in not just modern tobacco agriculture but also other agricultural machinery and fertiliser business within China. In this way, the Group will strive to exert great effort to attain the best returns for its shareholders.

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

At 30 June 2010, the interests and short positions of the directors and chief executives in the 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 were as follows:

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

Name of directors	Personal interests	Corporate interests	Other interests
Mr. WONG Man Hung Patrick	25,000,000	—	—
Mr. FENG Xiao Ping	—	31,718,750 (note (a))	—

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.

(b) Share Option

On 1 April 2009, the Group has granted an Option II under Scheme II to Mr. Wong Man Hung Patrick (“Mr. Wong”) to subscribe for 25 million shares of the Company at an exercise price of HK\$0.125 per share. On 22 March 2010, Mr. Wong has subscribed 25 million shares under the Scheme II and there is no outstanding options held by Mr. Wong.

Save as disclosed above, the directors do not have any interests or short positions in the shares of the Company.

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2010, the Company had been notified of the following substantial shareholders’ interests and short positions, being 5% or more of the Company’s issued share capital.

Name of shareholders	Number of shares — long position	Percentage of share capital (%)	Derivative interests	
			Number of shares — long position	Percentage of share capital to issued capital at 30 June 2010 (%)
Lee Yuk Lun	219,298,244	8.13	—	—
Au Yeung Kai Wah	150,625,000	5.58	—	—
Cyberland (China) Limited (<i>Note (a)</i>)	—	—	2,553,488,372	94.62
Jingquan Yinzi	20,000,000	0.74	<i>Note (b)</i>	<i>Note (b)</i>

Notes:

- (a) According to the disclosure of interest notices to the Stock Exchange filed by respective shareholders, 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.

According to the disclosure of interest notices to the Stock Exchange filed by respective shareholders, Rise Enterprises is legally and beneficially owned as to 32.5%, 42.6% 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.

- (b) According to the disclosure of interest notices to the Stock Exchange, 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 “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 no notice of any interests and short positions to be recorded under Section 336 of the SFO as at 30 June 2010.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months ended 30 June 2010. 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 2010.

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.

REVIEW BY AUDIT COMMITTEE

The quarterly result has been reviewed by the audit committee of the Company.

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, 13 August 2010