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
2011

Three-month and nine-month periods ended
31 December 2011

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") presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three-month and nine-month periods ended 31 December 2011 together with comparative figures for the corresponding periods in 2010, as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three-month and nine-month periods ended 31 December

		Three-month period ended 31 December		**Nine-month period ended 31 December**	
		2011	2010	**2011**	2010
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
			(Restated)		(Restated)
Revenue	2	**57,903**	204,105	**506,362**	467,567
Cost of sales and services		**(46,960)**	(170,343)	**(376,975)**	(379,010)
Gross profit		**10,943**	33,762	**129,387**	88,557
Other revenue	2	**4,396**	13,687	**5,717**	14,552
Distribution costs		**(6,053)**	(5,919)	**(15,685)**	(17,335)
Administrative expenses		**(27,613)**	(26,168)	**(74,839)**	(75,514)
Profit/(loss) from operations		**(18,327)**	15,362	**44,580**	10,260
Finance costs	3	**(8,033)**	(6,097)	**(24,076)**	(20,682)
Other loss		**—**	(480)	**(22)**	(3,611)
Impairment loss on other intangible assets	4	**—**	—	**(20,000)**	—
Share of profit of associates		**394**	—	**394**	—
Gain on disposal of subsidiaries	5	**—**	—	**3,392**	—
Loss on deconsolidation of subsidiaries	6	**(2,763)**	—	**(2,763)**	—
Profit/(loss) before income tax	7	**(28,729)**	8,785	**1,505**	(14,033)
Income tax credit/(expense)	8	**2,716**	(2,205)	**(1,570)**	(6,421)
Profit/(loss) for the period		**(26,013)**	6,580	**(65)**	(20,454)
Other comprehensive income					
Exchange differences on translating foreign operations		**(942)**	55	**10,240**	(234)
Total comprehensive income for the period		**(26,955)**	6,635	**10,175**	(20,688)
Profit/(loss) attributable to:					
— Owners of the Company		**(26,418)**	3,684	**(2,968)**	(22,489)
— Non-controlling interests		**405**	2,896	**2,903**	2,035
		(26,013)	6,580	**(65)**	(20,454)
Total comprehensive income attributable to:					
— Owners of the Company		**(27,078)**	3,729	**7,087**	(22,723)
— Non-controlling interests		**123**	2,906	**3,088**	2,035
		(26,955)	6,635	**10,175**	(20,688)
Earnings/(loss) per share attributable to the equity holders of the Company					
— Basic (HK cents per share)	9	**(0.97)**	0.14	**(0.11)**	(0.83)

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*
As 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
Share option scheme:											
— proceeds of share issued	465	5,347	—	—	—	—	—	—	5,812	—	5,812
Redemption of convertible bonds	—	—	—	—	—	—	—	(9,968)	(9,968)	—	(9,968)
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	5,365	5,365
Total comprehensive income for the period	—	—	(22,489)	—	—	—	(234)	—	(22,723)	2,035	(20,688)
As at 31 December 2010	27,138	1,040,713	(659,309)	(197)	26,062	15,882	(142)	427,825	877,972	12,728	890,700
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)
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 UNAUDITED CONSOLIDATED ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These 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.

These 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 accounts are consistent with those set out in the annual financial statements for the year ended 31 March 2011.

The consolidated accounts 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 marketing, and technical servicing of modern tobacco-related 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, agricultural construction service, new form of energy, nursery greenhouse, fertilizer, pesticide, biotechnology and related professional services. Other businesses include the development of digital television system platform and 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:

	Unaudited Three-month period ended 31 December		**Unaudited Nine-month period ended 31 December**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)
Revenue				
Sales of agricultural machinery	**44,942**	113,911	**443,287**	356,773
Sales of fertilizer and pesticide	**2,647**	89,238	**29,305**	107,397
Construction contract revenue	**9,100**	—	**29,410**	—
Provision of TV digitalization related service	**1,191**	476	**3,463**	2,716
Sales of cordyceps-related and other healthcare product	**23**	480	**897**	681
	57,903	204,105	**506,362**	467,567
Other Revenue				
Interests income	**4,338**	1,347	**5,602**	2,030
Dividend income	**—**	—	**32**	—
Government grant	**—**	2,162	**—**	2,321
Rental income from lease of equipment	**—**	9,751	**—**	9,751
Sundry income	**58**	427	**83**	450
	4,396	13,687	**5,717**	14,552

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

3. FINANCE COSTS

	Unaudited Three-month period ended 31 December		Unaudited Nine-month period ended 31 December	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)
Interests on bank loans wholly repayable within 5 years	**4,217**	4,271	**18,338**	12,066
Interests on other loans	**1,139**	686	**3,248**	1,982
Reversal of over-provided interest expenses	**—**	—	**(5,541)**	—
Effective interest expenses on convertible bonds	**2,677**	1,140	**8,031**	6,634
	8,033	6,097	**24,076**	20,682

4. IMPAIRMENT LOSS ON OTHER INTANGIBLE ASSETS

For the nine-month period ended 31 December 2011, the impairment loss on other intangible assets was related to the technology rights owned by a subsidiary of the Company.

5. GAIN ON DISPOSAL OF SUBSIDIARIES

With reference to the notes 26 to 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 Digicast Company Limited which had been dormant since 2010, for an aggregate consideration of HK$5. A gain on disposal of subsidiaries approximately to HK$3,392,000 was recorded.

6. LOSS ON DECONSOLIDATION OF SUBSIDIARIES

On 8 December 2011, the Group had 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 Shenghua Group, the Group's equity interest in Xian Shenghua Group has reduced to 20% from 51%. The remaining interests in Xian Shenghua Group were re-classified as interests in associates and equity accounted for in the Group's consolidated accounts subsequent thereto. A loss on deconsolidation of subsidiaries amounting to approximately HK$2,763,000 was recorded.

The consolidated net assets of Xian Shenghua Group at the date of control lost were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	1,481
Goodwill	816
Inventories	5,383
Trade and bills receivables	14,585
Other current assets	34,743
Cash and bank balances	1,360
Trade payable	(5,924)
Other current liabilities	(8,058)
Deferred income	(618)
Net assets deconsolidated	43,768
Non-controlling interests	(21,046)
Loss on deconsolidation of subsidiaries	(2,763)
	19,959
Satisfied by:	
Interests in associates	8,754
Cash consideration	11,205
	19,959

7. **PROFIT/(LOSS) BEFORE INCOME TAX**

	Unaudited Three-month period ended 31 December		Unaudited Nine-month period ended 31 December	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amortisation of intangible assets				
— Club membership	**1**	2	**5**	5
— Technologies	**6,580**	6,580	**19,739**	19,739
Amortisation of prepaid land lease payments	**65**	53	**196**	159
Depreciation	**1,619**	3,075	**4,821**	8,907
Share-based payments	**456**	—	**456**	—

8. **INCOME TAX CREDIT/(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 operated.

	Unaudited Three-month period ended 31 December		Unaudited Nine-month period ended 31 December	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong profits tax				
Current period	**—**	—	**—**	—
PRC enterprise income tax				
Current period	**(578)**	(2,205)	**(10,335)**	(6,421)
Over-provision in prior periods	**2,208**	—	**2,208**	—
	1,630	(2,205)	**(8,127)**	(6,421)
Deferred tax				
Current period	**1,086**	—	**6,557**	—
	2,716	(2,205)	**(1,570)**	(6,421)

Notes:

No provision for Hong Kong profits tax has been made in the financial statements as there was no estimated assessable profit for the three and nine months ended 31 December 2011 (three and nine months ended 31 December 2010: Nil).

In accordance with the relevant tax laws in the PRC, the subsidiaries of the Company in the PRC for the three and nine months ended 31 December 2011 are subject to an enterprise income tax rate of 25% (three and nine months ended 31 December 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 year of that subsidiary and accordingly, the applicable income tax rate for that subsidiary is 12.5% for the year. In addition, one of the 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 law 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.

9. **EARNINGS/(LOSS) PER SHARE**

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

	Unaudited Three-month period ended 31 December		**Unaudited Nine-month period ended 31 December**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit/(loss) attributable to owners of the Company				
Profit/(loss) for the purpose of calculating basic earnings/(loss) per share	**(26,418)**	3,684	**(2,968)**	(22,489)
Number of shares				
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share	**2,713,798**	2,713,798	**2,713,798**	2,707,498

Notes:

No diluted loss per share for the three-month and nine-month periods ended 31 December 2011 are presented, as the assumed conversion of the Company's outstanding share options and convertible bonds would result in a decrease in loss per share for the periods.

No diluted earnings per share for the three-month period ended 31 December 2010 has been presented, as the exercise price of the Company's outstanding options and conversion price of the Company's outstanding convertible bonds were higher than the average market price of the Company's shares for the period. No diluted loss per share for the nine-month period ended 31 December 2010 has been presented, as the assumed conversion of the Company's outstanding share options and convertible bonds could result in a decrease in loss per share for the period.

10. **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-month and nine-month periods ended 31 December 2011 respectively (three-month and nine-month periods ended 31 December 2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

During the period under review, the Group recorded an increase in revenue and a significant decrease in loss attributable to the owners of the Company. Revenue was approximately HK$506,362,000 (nine-month period ended 31 December 2010: approximately HK$467,567,000), representing an increase of approximately 8.3% as compared to the same period last year. The increase in revenue was mainly attributable to the increased revenue from the Group's tobacco agricultural business, including the sales of agricultural machinery, fertilizer, pesticide and provision of construction services, was approximately HK$502,002,000, representing an increase of approximately 8.2% as compared to the approximately HK$464,170,000 from the same period last year. Loss attributable to the owners of the Company for the nine-month period ended 31 December 2011 was approximately HK$2,968,000 while loss attributable to the owners of the Company for the same period last year was approximately HK$22,489,000, which is a significant decrease of approximately 86.8% due to increased profit from operations during the period under review.

Agricultural-related machinery and construction division

Revenue from sales of agricultural machinery was up approximately 24.2% to approximately HK$443,287,000 in compared with same period last year due to increase in market demand for the Group's products and services in the PRC tobacco agricultural industry. In view of enhancing and diversifying the Group's products and services segmentation to meet the expectation from the modernization in the PRC's tobacco agricultural market, the agricultural-related construction service was introduced to the market by the Group in the final quarter of the Year 2010/2011. During the nine-month period ended 31 December 2011, the revenue from the agricultural-related construction service was approximately HK$29,410,000. In view of the satisfactory results from the division during the period under review, the management is optimistic about the performance of the division for the final quarter of this financial year.

As mentioned in the report dated 28 February 2011, the Group had entered into a memorandum of understanding with an independent third party in relation to a potential acquisition of 70% equity interests of a company which was principally engaged in the research, production and distribution of tobacco related business in the PRC. As additional time is required for discussion of the formal agreement and the finalizing of the due diligence report, the Company and the proposed seller have mutually agreed in oral to extend the exclusive period for further six months to 28 February 2012. As at the date of this report, the discussion of the possible transaction is still on-going and no formal agreement has been entered. Further report in respect of the proposed transaction will be made by the Company as and when appropriate.

On 8 December 2011, a subsidiary of the Company entered into sale and purchase agreement with two independent third parties to dispose a total of 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" at a consideration of RMB9,300,000 (equivalent to approximately HK$11,205,000) as the synergy effects from the acquisition of Xian Shenghua Group to the Group were lower than expected and the efforts made by the Group to Xian Shenghua Group was greater than expected. Subsequent to the disposal mentioned above, the Company will remain a key strategic partner of Xian Shenghua Group by holding its 20% equity interests Group. The management of the Company considers that the disposal of 31% equity interests in Xian Shenghua Group does not have any material adverse effects on the operation, business and financial of the Group.

Fertilizer and pesticide division

As mentioned in the Annual Report 2011 of the Company, the increasing costs on raw material, transportation and staff costs, push up the pricing of the products and lead to a significant decrease in demand for the products. Revenue from the sales of fertilizers and pesticides for the period were approximately HK$29,305,000, an approximately 72.7% drop in compared with the same period last year. In view of the continuous unfavorable operating condition, on 8 April 2011, the Group entered into an asset transfer agreement with a connected person of the Company to dispose of certain properties and equipment in this division at a consideration of RMB138,000,000 (the "Disposal"). A special resolution in relation to the Disposal was duly passed by the independent shareholders of the Company on 18 May 2011. At the date of this report, the condition precedent to the completion of the asset transfer agreement were not fully fulfilled and the Disposal has not yet been completed.

TV digitalization-related division

The Group's TV digitalization-related division continued to provide a steady revenue source to the Group. Revenue from the division for the period under review was approximately HK$3,463,000, representing an approximately 27.5% increase in compared with the same period last year due to the management's continuous efforts in the development of the TV advertisement business. The management of the division is optimistic about the steady growth rate on revenue in view of the healthy development of the digital television market in the PRC.

Cordyceps-related and other healthcare products division

During the period under review, the operating conditions facing by the Group's cordyceps-related and other healthcare products division were challenging, mainly due to increase in competition in the PRC's healthcare products industry and reliance on limited sales channel for the Company's products. Divisional revenue for the period under review was approximately HK$897,000, representing approximately 0.2% of the Group's total revenue. The operating conditions of the division will continue to be challenging for the rest of the financial year. The management is now considering various measures to improve the divisional performance and financial position or may be dispose of the division if opportunity arises.

Others

During the period under review, a subsidiary of the Company was entered into agreement with a third party for the disposal of the entire equity interests in two wholly owned subsidiaries of the Company, namely M21 Mastertech Company Limited and M21 Digicast Company Limited, which had been dormant since 2010 for an aggregate consideration of HK$5. The disposal mentioned above is in line with the Company's long term objective to re-position itself in the PRC's modern agricultural tobacco industry.

FINANCIAL REVIEW

For the nine-month period ended 31 December 2011, the Group recorded a revenue of approximately HK$506,362,000, representing an increase of approximately 8.3% as compared to the approximately HK$467,567,000 from the corresponding period last year. The revenue from the sales of agricultural machinery, fertilizer and pesticide and construction contract revenue, was collectively amounted to approximately HK$502,002,000, representing approximately 99.1% (nine-month period ended 31 December 2010: approximately 99.3%) of the Group's total revenue. Revenue from provision of TV digitalization related services and sales of cordyceps-related and other healthcare products for the nine-month period ended 31 December 2011 were collectively amounted to approximately HK$3,463,000 (nine-month period ended 31 December 2010: approximately HK$2,716,000) and approximately HK$897,000 (nine-month period ended 31 December 2010: approximately HK$681,000) respectively, totally representing approximately 0.9% (nine-month period ended 31 December 2010: approximately 0.7%) of the Group's total revenue.

For the nine-month period ended 31 December 2011, the Group recorded a gross profit of approximately HK$129,387,000, representing an increase of approximately 46.1% as compared to the approximately HK$88,557,000 from the corresponding period of last year. The Group's gross profit ratio improved to approximately 25.6% in comparing with approximately 18.9% in last year. The improvement was mainly contributed by the change of products mix and the increase in operating efficiency in the Group's agricultural-related machinery and construction division.

The Group's other revenue for the nine-month period ended 31 December 2011 was approximately HK$5,717,000 (nine-month period ended 31 December 2010: approximately HK$14,552,000), representing a decrease of approximately 60.7%, which was mainly due to one-off government grant and rental income from leasing equipment of approximately HK$2,321,000 and HK$9,751,000 respectively during the corresponding period last year.

The Group's distribution costs and administrative expenses for the nine-month period ended 31 December 2011 were approximately HK$15,685,000 and HK$74,839,000, representing an decrease of approximately HK$1,650,000 or approximately 9.5% in distribution costs and approximately HK$675,000 or approximately 0.9% in administrative expenses for the corresponding period last year respectively. Decrease in distribution costs was mainly due to further cost control on entertainment and advertising expenses. Administrative expenses for the nine-month period 31 December 2011 recorded a slight decrease in compared with the corresponding period last year despite the continuous uprising China's Gross Domestic Product and Consumer Price Index ratios that drive the staff costs further up and a recognition of share-based payment of approximately HK$456,000 as an expense for the period under review.

Finance costs was approximately HK$24,076,000 (nine-month period ended 31 December 2010: approximately HK$20,682,000), representing an increase of approximately 16.4% mainly due to the People's Bank of China raised deposit reserve ratio various times and increased interest rate three times during the period, which led to the continuous uprising loan interest rate in the PRC. During the period under review, despite the finance costs to revenue ratio slightly increased to 4.8% from 4.4% of the corresponding period last year, the ratio remain at a healthy level.

Profit from operations for the nine-month period ended 31 December 2011 was approximately HK$44,580,000, representing an increase of approximately 4.3 times as compared to the approximately HK$10,260,000 from the corresponding period last year. Loss attributable to the owners of the Company for the nine-month period 31 December 2011 was approximately HK$2,968,000, approximately a 86.8% significant drop in compared with the corresponding period last year (nine-month period ended 31 December 2010: approximately HK$22,489,000), after a deduction of mainly an one-off impairment loss in relation to technology rights amounting to approximately HK$20,000,000, a gain on disposal of subsidiaries approximately HK$3,392,000 and a loss on deconsolidation of subsidiaries approximately HK$2,763,000 for the period under review.

PROSPECTS

Looking ahead, the management is optimistic about the performance of the Group's tobacco-related modern agricultural business in the coming years. As a result from the continuous modernization of the PRC tobacco agricultural industry, we believe the implementation of the policy will strengthen the consolidation of the PRC tobacco agricultural industry and speed up the elimination of production capacity with outdated technology. It will bring better development environment and create more expansion opportunities for the Group, being a market leader in the PRC tobacco modern agricultural industry which will be benefited by the subsidies and other favorable policies imposed by the PRC government for the players. In the long run, on the basis of continuing focus on its tobacco modern agricultural business, the Group will keep monitor the market trend, actively expose and capture new business opportunities in the industry by further optimize products and services mix such as enhancing promotional activities and strategies in comprehensive usage of biomass energy, pesticides, tobacco-specific fertilizers and the provision of tobacco-specific professional services, in order to further expand sales and market shares. In general, in light of the continuous modernization of the PRC tobacco agricultural industry, the Group believes that its leading position in the PRC's tobacco flue-curing machinery market will be sustained; the average income of the farmer in the PRC tobacco industry will be further improved and the stability of the PRC society will be secured.

In line with the Company's long term development strategy, the management will continue to cautiously evaluate the new investment opportunities in tobacco-specific industry in order to ensure a bright prospect to the shareholders.

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

As at 31 December 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	2,424,289,767 *(note (a) and (b))*	89.33%
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 *(note (a) and (b))*	87.76%
Mr. Feng Xiaoping *(note (c))*	Interests held by controlled corporation	31,718,750	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 underlying Shares.

(c) 31,718,750 shares are held by Sino Unicorn Technology Limited, a company in which Mr. Feng Xiaoping has an indirect interests of 51% therein.

Save as disclosed above, as at 31 December 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 325 of SFO or (b) to be notified to the Company and the Stock Exchange pursuant to the SFO or the GEM Listing Rules.

SHARE OPTION SCHEME

A share option scheme was adopted by the Company pursuant to a resolution passed by the shareholders of the Company on 2 February 2009. Details of the principal terms of the share option scheme were set out in the Company's circular and its appendix dated 13 January 2009.

During the period under review, a total of 7,000,000 share options to subscribe for ordinary share of par value of HK$0.01 each of the Company were granted to a full-time employee of the Company. Details of the share option granted for the period was set out in the Company's report dated 7 October 2011.

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

				Number of share options				
Name or category of participants	Date of grant	Exercise price per share *HK$*	Exercisable period	As at 1.4.2011	Granted during the period	Exercised during the period	Lapsed during the period	As at 31.12.2011
Suppliers	1.4.2009	0.125	9.3.2009 to 8.3.2012	10,000,000	—	—	—	10,000,000
Consultants	10.12.2010	0.328	10.12.2010 to 9.12.2013	50,000,000	—	—	—	50,000,000
Employees	10.12.2010	0.328	10.12.2010 to 9.12.2013	10,000,000	—	—	—	10,000,000
	7.10.2011	0.170	7.10.2011 to 6.10.2016	—	7,000,000	—	—	7,000,000
				70,000,000	7,000,000	—	—	77,000,000

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

As at 31 December 2011, 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 & 3 of part XV of the SFO and were recorded in the register kept by the Company pursuant to Section 336 of SFO.

			Derivative interests	
Name of shareholders	Number of Shares — long position	Percentage of Share capital *(%)*	Number of underlying Shares — long position	Percentage of share capital to issued capital at 31 December 2011 *(%)*
Mr. Lee Yuk Lun	219,298,244	8.08	—	—
Cyberland (China) Limited	—	—	2,379,069,767 *(note (a) and (b))*	87.67
Eagle Bliss Limited			2,379,069,767 *(notes (a), (c) and (e))*	87.67
Rise Enterprises Limited			2,379,069,767 *(notes (a) and (b))*	87.67
Stepwise International Holdings Limited			2,379,069,767 *(notes (a), (b) and (d))*	87.67
Ms. Wu Shuhua			2,381,519,767 *(note (f))*	87.76

Notes:

(a) The interests refer to the same parcel of underlying 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 31 December 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 (the "Code") 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 31 December 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 dealt with the requirement in respect of the appointment terms of non-executive directors as required under the Code.

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-month period ended 31 December 2011, except that Ms. Jingquan Yingzi, the Chairman of the Company, without notifying the designated director of the Company for the purpose of acknowledgement of the Chairman's dealings, acquired 1,304,000 shares of the Company on 5 August 2011. The Company shall iterate and remind the Directors from time to time in respect of the relevant procedures, rules and requirements in relation to Directors' dealing in order to ensure the Directors' compliance.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the nine-month period ended 31 December 2011. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the nine-month period ended 31 December 2011.

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

Hong Kong, 10 February 2012

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.