



**CODE AGRICULTURE (HOLDINGS) LIMITED**

**科地農業控股有限公司**

(Incorporated in Bermuda with limited liability)

(Stock Code: 8153)

**INTERIM REPORT**

**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.**

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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.*

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Ms. Jingquan Yingzi (*Chairman*)  
Mr. Wong Man Hung Patrick  
Mr. Shan Xiaochang  
Mr. Wu Zhongxin  
Mr. Feng Xiaoping (resigned on 28 September 2012)  
Mr. Stephen William Frostick

### Non Executive Director

Prof. Liu Guoshun

### Independent Non-Executive Directors

Mr. Sousa Richard Alvaro  
Mr. Lee Chi Hwa Joshua  
Ms. Chan Mei Bo Mabel (resigned on 27 April 2012)  
Mr. Zhao Zhizheng (appointed on 26 July 2012)

### COMPLIANCE OFFICER

Mr. Wong Man Hung Patrick

### AUTHORISED REPRESENTATIVES

Mr. Wong Man Hung Patrick  
Mr. Feng Xiaoping (resigned on 28 September 2012)  
Mr. Li Kwok Fat (appointed on 5 October 2012)

### AUDIT COMMITTEE

Mr. Sousa Richard Alvaro (*Chairman*)  
Mr. Lee Chi Hwa Joshua  
Ms. Chan Mei Bo Mabel (resigned on 27 April 2012)  
Mr. Zhao Zhizheng (appointed on 26 July 2012)

### REMUNERATION COMMITTEE

Mr. Sousa Richard Alvaro (*Chairman*)  
Mr. Lee Chi Hwa Joshua  
Ms. Chan Mei Bo Mabel (resigned on 27 April 2012)  
Mr. Zhao Zhizheng (appointed on 26 July 2012)

### COMPANY SECRETARY

Mr. Chow Kim Hang (resigned on 5 October 2012)  
Mr. Li Kwok Fat (appointed on 5 October 2012)

### REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 3808-10  
38/F, China Resources Building  
26 Harbour Road,  
Wan Chai, Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM08  
Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai, Hong Kong

### LEGAL ADVISORS

Tsun & Partners

### AUDITORS

Baker Tilly Hong Kong  
Certified Public Accountants, Hong Kong

### PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited  
China Construction Bank  
Agricultural Bank of China

### STOCK CODE

8153

### COMPANY WEBSITE

[www.code-hk.com](http://www.code-hk.com)

## INTERIM RESULTS

The board of directors (the “Board”) of Code Agriculture (Holdings) Limited (“Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 September 2012, together with the comparative unaudited figures for the corresponding period in 2011, as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — UNAUDITED

For the three months and six months ended 30 September

	Notes	Three months ended 30 September		Six months ended 30 September	
		2012 HK\$'000	2011 HK\$'000 (Restated)	2012 HK\$'000	2011 HK\$'000 (Restated)
Turnover	5	79,119	210,333	540,020	448,459
Cost of sales and services		(74,786)	(151,873)	(396,752)	(316,992)
Gross profit		4,333	58,460	143,268	131,467
Other revenue	6	2,477	482	4,620	1,321
Distribution costs		(11,071)	(14,123)	(21,145)	(22,655)
Administrative expenses		(21,525)	(25,611)	(41,068)	(47,226)
Profit/(loss) from operations		(25,786)	19,208	85,675	62,907
Finance costs	7	(7,271)	(2,248)	(16,421)	(16,043)
Other gain/(loss)	8	4	(341)	4	(2)
Share of loss of an associate		—	—	(681)	—
Gain on disposal of subsidiaries	26	—	3,392	—	3,392
Loss on disposal of interest in an associate	27	—	—	(1,504)	—
Gain on disposal of assets held for sale	28	36	—	67,204	—
Impairment loss on other intangible assets	9	—	—	—	(20,000)
<b>Profit/(loss) before income tax</b>	10	<b>(33,017)</b>	20,011	<b>134,277</b>	30,234
Income tax expense	11	(6,064)	(2,849)	(20,089)	(4,286)
<b>Profit/(loss) for the period</b>		<b>(39,081)</b>	17,162	<b>114,188</b>	25,948
<b>Other comprehensive income, net of income tax</b>					
Exchange differences on translating foreign operations		(1,150)	6,696	(263)	11,182
<b>Total comprehensive income for the period</b>		<b>(40,231)</b>	23,858	<b>113,925</b>	37,130
<b>Profit/(loss) for the period attributable to:</b>					
— Owners of the Company	12	(38,513)	14,895	115,267	23,450
— Non-controlling interests		(568)	2,267	(1,079)	2,498
		<b>(39,081)</b>	17,162	<b>114,188</b>	25,948
<b>Total comprehensive income attributable to:</b>					
— Owners of the Company		(39,663)	21,416	115,004	34,165
— Non-controlling interests		(568)	2,442	(1,079)	2,965
		<b>(40,231)</b>	23,858	<b>113,925</b>	37,130
<b>Earnings/(loss) per share attributable to the owners of the Company during the period</b>					
Basic and diluted — HK cents per share	12	(1.42)	0.55	4.25	0.86

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2012 and 31 March 2012

	<i>Notes</i>	Unaudited As at 30 September 2012 <i>HK\$'000</i>	Audited As at 31 March 2012 <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	72,256	76,347
Prepaid land lease payments		6,604	6,739
Goodwill	15	776,323	776,323
Other intangible assets	16	44,341	57,504
Interests in associates	17	—	16,531
Deferred tax assets		3,714	10,891
		<u>903,238</u>	<u>944,335</u>
<b>Current assets</b>			
Inventories	18	67,278	67,910
Trade and bills receivables	19	572,775	442,635
Prepayments, other receivables and deposits	19	229,125	249,180
Pledged deposits		126,978	260,222
Cash and bank balances		123,381	160,755
		<u>1,119,537</u>	<u>1,180,702</u>
Assets held for sale	20	—	103,431
		<u>1,119,537</u>	<u>1,284,133</u>
<b>Current liabilities</b>			
Trade and bills payables	21	67,388	62,236
Other payables and accruals	21	44,782	67,434
Amount due to a non-controlling shareholder of a subsidiary	21	1,319	1,522
Amounts due to directors	21	5,436	5,186
Borrowings	22	573,296	747,004
Tax payable		43,547	3,963
		<u>735,768</u>	<u>887,345</u>
<b>Net current assets</b>		<u>383,769</u>	<u>396,788</u>
<b>Total assets less current liabilities</b>		<u>1,287,007</u>	<u>1,341,123</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		7,291	9,462
Convertible bond	23	547,548	645,400
		<u>554,839</u>	<u>654,862</u>
<b>Net assets</b>		<u>732,168</u>	<u>686,261</u>
<b>EQUITY</b>			
Share Capital	24	27,138	27,138
Reserves		706,606	659,620
		<u>733,744</u>	<u>686,758</u>
Equity attributable to owners of the Company		733,744	686,758
Non-controlling interests		(1,576)	(497)
<b>Total equity</b>		<u>732,168</u>	<u>686,261</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY — UNAUDITED

For the six months ended 30 September

	Attributable to owners of the Company										
	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>	Merger Reserve <i>HK\$'000</i> <i>(note)</i>	Capital Reserve <i>HK\$'000</i>	Share-based Payment Reserve <i>HK\$'000</i>	Exchange Reserve <i>HK\$'000</i>	Convertible Bond Reserve <i>HK\$'000</i>	Subtotal <i>HK\$'000</i>	Non- Controlling Interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
Redemption of convertible bond	—	—	—	—	—	—	—	(68,021)	(68,021)	—	(68,021)
Transactions with owners	—	—	—	—	—	—	—	(68,021)	(68,021)	—	(68,021)
Profit for the period	—	—	115,267	—	—	—	—	—	115,267	(1,079)	114,188
Other comprehensive income	—	—	—	—	—	—	(263)	—	(263)	—	(263)
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>—</b>	<b>115,267</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(263)</b>	<b>—</b>	<b>115,004</b>	<b>(1,079)</b>	<b>113,925</b>
<b>At 30 September 2012</b>	<b>27,138</b>	<b>1,056,184</b>	<b>(787,871)</b>	<b>(197)</b>	<b>33,014</b>	<b>9,499</b>	<b>36,170</b>	<b>359,804</b>	<b>733,741</b>	<b>(1,576)</b>	<b>732,165</b>
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
Profit for the period	—	—	23,450	—	—	—	—	—	23,450	2,498	25,948
Other comprehensive income	—	—	—	—	—	—	10,715	—	10,715	467	11,182
Total comprehensive income for the period	—	—	23,450	—	—	—	10,715	—	34,165	2,965	37,130
<b>At 30 September 2011</b>	<b>27,138</b>	<b>1,056,184</b>	<b>(838,358)</b>	<b>(197)</b>	<b>26,062</b>	<b>9,774</b>	<b>31,487</b>	<b>427,825</b>	<b>739,915</b>	<b>30,722</b>	<b>770,637</b>

*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.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS — UNAUDITED

For the six months ended 30 September

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Net cash generated from operating activities	2,638	84,739
Net cash generated from investing activities	133,477	35,176
Net cash used in financing activities	<u>(173,709)</u>	<u>(35,881)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(37,594)</b>	84,034
<b>Cash and cash equivalents at 1 April</b>	<b>160,755</b>	47,491
<b>Effects of exchange rate changes on the balance of cash held in foreign currencies</b>	<b><u>220</u></b>	<b><u>7,271</u></b>
<b>Cash and cash equivalents at 30 September</b>	<b><u>123,381</u></b>	<b><u>138,796</u></b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	<b><u>123,381</u></b>	<b><u>138,796</u></b>



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Code Agriculture (Holdings) Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of the business of Company are disclosed in the Corporate Information section of this report.

The Company is an investment holding company and 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”).

## 2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which comprises Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the condensed consolidated interim financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

### 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 six months ended 30 September 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 30 September 2011			Unaudited Six months ended 30 September 2011		
	Originally Stated HK\$’000	Adjustments HK\$’000	Restated HK\$’000	Originally Stated HK\$’000	Adjustments HK\$’000	Restated HK\$’000
Cost of sales and services	(161,171)	9,298	(151,873)	(330,015)	13,023	(316,992)
Gross profit	49,162	9,298	58,460	118,444	13,023	131,467
Distribution costs	(4,825)	(9,298)	(14,123)	(9,632)	(13,023)	(22,655)
	<u>(116,834)</u>	<u>(9,298)</u>	<u>(126,132)</u>	<u>(320,373)</u>	<u>(9,999)</u>	<u>(330,372)</u>

## 3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments are measured stated at fair values.

The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those set out in the Group’s financial statements for the year ended 31 March 2012, except that the Group has applied, for the first time, the following new standards, amendments and interpretations (the “new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 April 2012.

### Amendments to HKFRS 7 Disclosures — Transfers of Financial Assets

Other than as noted below, the adoption of these new/revised HKFRSs did not change the Group’s accounting policies as followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2012.

### Amendments to HKFRS 7 — Disclosures — Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

The adoption of these new HKFRSs has no material impact on the Group’s results and financial position for the current and prior periods. The HKICPA has also issued a number of new standards, amendments to standards and interpretations which are not yet effective. The Group has not early adopted these standards. The directors are currently assessing the impact of these new and amended HKFRSs upon initial application but are not yet in a position to state whether they would have material financial impact on the Group’s results and financial position.

## 4. FINANCIAL RISK MANAGEMENT

The Group’s financial risk management objectives and policies are consistent with those disclosed in the Annual Report 2012.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

## 5. TURNOVER AND SEGMENT INFORMATION

An analysis of the Group's turnover is as follows:—

	Unaudited Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Sale of agricultural machinery and provision of construction services	514,095	418,655
Sale of fertilizer and pesticide	22,865	26,658
Provision of digital television services	2,686	2,272
Sale of cordyceps-related and other healthcare products	374	874
	<u>540,020</u>	<u>448,459</u>

For management purposes, the Group is currently organised into three operating divisions and these divisions are the basis on which the Group reports its primary segment information.

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results and assets and liabilities attributable to each reportable segment on the following basis:—

Segment turnover represents revenue generated from external customers.

Segment results represent the profit earned or loss incurred by each segment without allocation of corporate income and expenses, central administrative costs, director's salaries, interest and other income and finance costs, share of loss of an associate, gain on disposal of subsidiaries, loss on disposal of interest in an associate, gain on disposal of assets held for sale and income tax expense.

Segment assets include all tangible and intangible assets other than interests in associates, deferred tax assets, pledged deposits, cash and bank balances and unallocated corporate assets.

Segment liabilities include all liabilities other than amounts due to directors, borrowings, deferred tax liabilities, convertible bond and unallocated corporate liabilities.

### (a) Business segments

#### Segment turnover and results

	Unaudited Six months ended 30 September							
	Tobacco Agricultural operation 2012 HK\$'000	Digital Television operation 2012 HK\$'000	Healthcare Products operation 2012 HK\$'000	Total 2012 HK\$'000	Tobacco Agricultural operation 2011 HK\$'000 (Restated)	Digital Television operation 2011 HK\$'000 (Restated)	Healthcare Products operation 2011 HK\$'000 (Restated)	Total 2011 HK\$'000 (Restated)
	Revenue from external customers	<u>536,960</u>	<u>2,686</u>	<u>374</u>	<u>540,020</u>	<u>445,313</u>	<u>2,272</u>	<u>874</u>
Gross profit/(loss)	<u>142,494</u>	<u>1,128</u>	<u>(354)</u>	<u>143,268</u>	<u>130,129</u>	<u>948</u>	<u>390</u>	<u>131,467</u>
Segment profit/(loss) from operations	<u>92,392</u>	<u>(488)</u>	<u>(2,356)</u>	<u>89,548</u>	<u>72,428</u>	<u>(740)</u>	<u>(1,418)</u>	<u>70,270</u>
Impairment loss on other intangible assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(20,000)</u>	<u>—</u>	<u>—</u>	<u>(20,000)</u>
Segment results	<u>92,392</u>	<u>(488)</u>	<u>(2,356)</u>	<u>89,548</u>	<u>52,428</u>	<u>(740)</u>	<u>(1,418)</u>	<u>50,270</u>
Interests income				<u>4,489</u>				<u>1,264</u>
Unallocated corporate income				<u>3</u>				<u>53</u>
Unallocated corporate expenses				<u>(8,365)</u>				<u>(8,680)</u>
Finance costs				<u>(16,421)</u>				<u>(16,043)</u>
Other gain/(loss)				<u>4</u>				<u>(22)</u>
Share of loss of an associate				<u>(681)</u>				<u>—</u>
Gain on disposal of subsidiaries				<u>—</u>				<u>3,392</u>
Loss on disposal of interest in an associate				<u>(1,504)</u>				<u>—</u>
Gain on disposal of assets held for sale				<u>67,204</u>				<u>—</u>
Profit before income tax				<u>134,277</u>				<u>30,234</u>
Income tax expense				<u>(20,089)</u>				<u>(4,286)</u>
Profit for the period				<u>114,188</u>				<u>25,948</u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

## 5. TURNOVER AND SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

#### Segment assets and liabilities

	Unaudited As at 30 September				Audited As at 31 March			
	Tobacco Agricultural operation 2012 HK\$'000	Digital Television operation 2012 HK\$'000	Healthcare Products operation 2012 HK\$'000	Total 2012 HK\$'000	Tobacco Agricultural operation 2011 HK\$'000	Digital Television operation 2011 HK\$'000	Healthcare Products operation 2011 HK\$'000	Total 2011 HK\$'000
<b>Total assets</b>								
Segment assets	1,717,831	3,904	42,830	1,764,565	1,728,393	4,007	43,048	1,775,448
Interests in associates				—				16,531
Deferred tax assets				3,714				10,891
Pledged deposits				126,978				260,222
Cash and bank balances				123,381				160,755
Unallocated corporate assets				4,137				4,621
				<u>2,022,775</u>				<u>2,228,468</u>
<b>Total liabilities</b>								
Segment liabilities	131,551	8,557	14,123	154,231	109,244	7,573	13,920	130,737
Amounts due to directors				5,436				5,186
Borrowings				573,296				747,004
Deferred tax liabilities				7,291				9,462
Convertible bond				547,548				645,400
Unallocated corporate liabilities				2,805				4,418
				<u>1,290,607</u>				<u>1,542,207</u>

### (b) Geographical information

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:—

	Unaudited Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
<b>Revenue</b>		
PRC	540,020	448,459
Hong Kong	—	—
	<u>540,020</u>	<u>448,459</u>
	<b>Unaudited</b>	<b>Audited</b>
	<b>As at</b>	<b>As at</b>
	<b>30 September</b>	<b>31 March</b>
	<b>2012</b>	<b>2012</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Non-current assets*</b>		
PRC	896,806	919,266
Hong Kong	2,718	14,178
	<u>899,524</u>	<u>933,444</u>

\* Non-current assets did not include deferred tax assets

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

### 6. OTHER REVENUE — UNAUDITED

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Interest income	4,489	1,264
Dividend income from listed securities	—	32
Government grants	123	—
Sundry income	8	25
	<u>4,620</u>	<u>1,321</u>

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

### 7. FINANCE COSTS — UNAUDITED

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Interest on bank loans wholly repayable within five years	8,226	14,121
Interest on other loans	3,433	2,109
Reversal of interest expenses over-provided in prior year	—	(5,541)
Effective interest expenses on convertible bond	4,762	5,354
	<u>16,421</u>	<u>16,043</u>

### 8. OTHER GAIN/(LOSS) — UNAUDITED

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
Gain/(loss) on disposal of financial assets at fair value through profit or loss	4	(22)
	<u>4</u>	<u>(22)</u>

### 9. IMPAIRMENT LOSS ON OTHER INTANGIBLE ASSETS — UNAUDITED

For the six months ended 30 September 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.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

## 10. PROFIT/(LOSS) BEFORE INCOME TAX — UNAUDITED

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
<b>(a) Staff costs</b>		
Contributions to defined contribution retirement plans	1,041	1,183
Salaries, wages and other benefits	18,086	22,913
	<u>19,127</u>	<u>24,096</u>
<b>(b) Other items</b>		
Amortisation		
— land lease premium	134	131
— technologies	13,159	13,159
— club membership	4	4
Depreciation	4,046	3,202
Impairment loss on other intangible assets	—	20,000
Operating lease charges: minimum lease payments		
— hire of building	2,571	3,469
— hire of plant and machinery	—	29
Cost of goods sold	362,590	294,755
Research and development costs	2,643	2,501
Write-off of property, plant and equipment	171	9
Loss on disposal of property, plant and equipment	267	—
	<u>267</u>	<u>—</u>

## 11. INCOME TAX EXPENSE — 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.

	Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000
<b>Current tax charge for the period</b>		
— Hong Kong Profits Tax	—	—
— PRC Enterprises Income Tax	15,124	9,757
	<u>15,124</u>	<u>9,757</u>
<b>Deferred tax</b>		
Revaluation of properties and technologies	4,965	(5,471)
	<u>20,089</u>	<u>4,286</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 six months ended 30 September 2012 and 30 September 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% (30 September 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% (30 September 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% (30 September 2011: 25%) for their taxable income.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

## 12. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY — UNAUDITED

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

	Three months ended 30 September		Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
<b>Profit/(loss)</b>				
Profit/(loss) attributable to the owners of the Company	<u>(38,513)</u>	<u>14,895</u>	<u>115,267</u>	<u>23,450</u>
	2012 '000	2011 '000	2012 '000	2011 '000
<b>Numbers of shares</b>				
Weighted average number of shares for the purpose of basis 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 six months ended 30 September 2012 and 30 September 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.

## 13. DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2012 (30 September 2011: Nil).

## 14. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2012, the Group acquired property, plant and equipment with a cost of HK\$855,000 (six months ended 30 September 2011: HK\$426,000).

## 15. GOODWILL

	Unaudited As at 30 September 2012 HK\$'000	Audited As at 31 March 2012 HK\$'000
<b>Cost</b>		
At the beginning of period/year	896,557	897,581
Disposal of a subsidiary (note a)	—	(222)
Deconsolidation of subsidiaries (note b)	—	(816)
Exchange difference	—	14
At the end of period/year	<u>896,557</u>	<u>896,557</u>
<b>Accumulated impairment</b>		
At the beginning and end of period/year	<u>120,234</u>	<u>120,234</u>
<b>Carrying amounts</b>		
At the beginning of period/year	<u>776,323</u>	<u>777,347</u>
At the end of period/year	<u>776,323</u>	<u>776,323</u>

Notes:

- (a) On 16 January 2012, the Group and an independent third party entered into a sale and purchase agreement for its 51% equity interests in Jiangsu Kedi Runxin Steel Construction Company Limited which operates tobacco agricultural business.
- (b) On 8 December 2011, the Group and two independent third parties entered into sale and purchase agreements for 20% and 11% of the issued share capital in Xian Shenghua Electronic Engineering Company Limited ("Xian Shenghua"), which hold the entire equity interest in Xuchang Tongxia Modern Agricultural Technology Limited ("Xuchang Tongxia", collectively as "Xian Shenghua Group"). Following the disposal of the Group's aggregate 31% equity interest in Xian Shenghua, the Group's equity interest in Xian Shenghua Group was reduced to 20% from 51%. The remaining 20% equity interests in Xian Shenghua Group were reclassified as interests in associates and equity accounted for in the Group's consolidated financial statements up to 10 May 2012, on which the Group has disposed of its entire equity interests, and Xian Shenghua Group is ceased to be the associates of the Group as disclosed in note 27.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

## 16. OTHER INTANGIBLE ASSETS

	Club membership HK\$'000	Technologies HK\$'000	Total HK\$'000
At 1 April 2011	(158)	142,770	142,928
Amortisation for the year	(7)	(26,318)	(26,325)
Impairment loss	—	(59,105)	(59,105)
Exchange differences	6	—	6
	<hr/>	<hr/>	<hr/>
At 31 March 2012 and 1 April 2012 (audited)	157	57,347	57,504
Amortisation for the period	(4)	(13,159)	(13,163)
	<hr/>	<hr/>	<hr/>
<b>At 30 September 2012 (unaudited)</b>	<b>153</b>	<b>44,188</b>	<b>44,341</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 17. INTERESTS IN ASSOCIATES

	Unaudited As at 30 September 2012 HK\$'000	Audited As at 31 March 2012 HK\$'000
Unlisted share, at cost	5,569	14,429
Share of post-acquisition results and reserves, net of dividends received	(5,569)	(4,946)
	<hr/>	<hr/>
	—	9,483
	<hr/> <hr/>	<hr/> <hr/>
Amounts due from associates	4,457	11,505
Less: Impairment loss	(4,457)	(4,457)
	<hr/>	<hr/>
	—	7,048
	<hr/> <hr/>	<hr/> <hr/>
	—	16,531
	<hr/> <hr/>	<hr/> <hr/>

As disclosed in note 27, the Group disposed of its entire equity interest in an associate during the six months ended 30 September 2012.

## 18. INVENTORIES

	Unaudited As at 30 September 2012 HK\$'000	Audited As at 31 March 2012 HK\$'000
Raw materials	23,452	38,720
Work in progress	17,066	19,040
Finished goods	26,760	10,150
	<hr/>	<hr/>
	67,278	67,910
	<hr/> <hr/>	<hr/> <hr/>

## 19. TRADE AND OTHER RECEIVABLES

	Unaudited As at 30 September 2012 HK\$'000	Audited As at 31 March 2012 HK\$'000
Trade and bills receivables	572,775	442,635
Less: allowance for doubtful debts	—	—
	<hr/>	<hr/>
	572,775	442,635
Other receivables	72,101	59,081
	<hr/>	<hr/>
Loans and receivables	644,876	501,716
	<hr/>	<hr/>
Prepayments and deposits	157,024	190,099
	<hr/>	<hr/>
	801,900	691,815
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

## 19. TRADE AND OTHER RECEIVABLES (continued)

Ageing analysis (based on invoice date) of trade and bills receivables as at the end of the reporting periods were as follows:—

	Unaudited As at 30 September 2012 HK\$'000	Audited As at 31 March 2012 HK\$'000
Current	45,077	118,923
30-90 days	77,452	69,557
91-180 days	235,873	44,800
Over 180 days	214,373	209,355
	<u>572,775</u>	<u>442,635</u>

Trade and bills receivables are due within 30 to 270 days from date of billing.

## 20. ASSETS HELD FOR SALE

	Unaudited As at 30 September 2012 HK\$'000	Audited As at 31 March 2012 HK\$'000
At the beginning of period/year	103,431	101,902
Disposal of subsidiaries	26	(2,141)
Disposal of assets held for sale	28	—
Exchange difference	(594)	3,670
At the end of period/year	<u>—</u>	<u>103,431</u>
Represented by:		
Property, plant and equipment	—	87,640
Prepaid land lease payments	—	15,791
	<u>—</u>	<u>103,431</u>

## 21. TRADE AND OTHER PAYABLES

	Unaudited As at 30 September 2012 HK\$'000	Audited As at 31 March 2012 HK\$'000
Trade and bills payables (note a)	67,388	62,236
Other payables, customers receipts in advance and accruals	44,782	67,434
Amount due to a non-controlling shareholder of a subsidiary (note b)	1,319	1,522
Amounts due to directors (note c)	5,436	5,186
	<u>51,537</u>	<u>74,142</u>
	<u>118,925</u>	<u>136,378</u>

Notes:

(a) Ageing analysis of trade and bills payables as at the end of the reporting periods were as follow:—

	Unaudited As at 30 September 2012 HK\$'000	Audited As at 31 March 2012 HK\$'000
Current	11,046	51,245
30-90 days	16,545	—
91-180 days	28,133	—
Over 180 days	11,664	10,991
	<u>67,388</u>	<u>62,236</u>

(b) The amount due to a non-controlling shareholder of a subsidiary is unsecured, interest free and repayable on demand.

(c) The amount due to a director amounting to HK\$5,250,000 (31 March 2012: HK\$5,000,000) is unsecured, bears interest at 5% per annum and is repayable within a year.

The amount due to a director amounting to HK\$186,000 (31 March 2012: HK\$186,000) is unsecured, interest free and repayable on demand.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

## 22. BORROWINGS

	Unaudited As at 30 September 2012 HK\$'000	Audited As at 31 March 2012 HK\$'000
Bank loans, secured		
Floating interest rate	111,111	148,148
Fixed interest rate	87,037	46,296
Bills of exchange, secured floating interest rate	336,840	518,518
Other loans, unsecured		
Interest free	6,111	6,111
Fixed interest rate	32,197	27,931
	<u>573,296</u>	<u>747,004</u>

At 30 September 2012, the bills of exchange were secured by pledged deposits of HK\$126,978,000 (31 March 2012: 260,222,000).

At 30 September 2012, the bank loans of certain subsidiaries were secured by mortgages over their prepaid land lease payments and property, plant and equipment with an aggregate value of HK\$6,604,000 (31 March 2012: HK\$6,739,000) and HK\$26,367,000 (31 March 2012: HK\$27,812,000) respectively and personal guarantee by a director and related companies.

## 23. CONVERTIBLE BOND

On 25 March 2010, the Company issued 1% convertible bonds with an aggregate amount of HK\$1,098,000,000 ("CB 2015"). The bondholder has the option to convert the CB 2015 into ordinary shares of the Company of HK\$0.01 each at a conversion price of HK\$0.43 at any time during the period commencing from 25 March 2012. Unless previously converted or purchased or redeemed, each CB 2015 shall be redeemed by the Company, at 100 percent of its principal amount on 25 March 2015, being the maturity date of the CB 2015.

The proceeds from the issuance of the CB 2015 have to be split into liability and equity components. On issuance of the CB 2015, the fair value of the liability component is determined using the prevailing market interest rate of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the conversion option for the holder to convert the bonds into equity. In subsequent period, the liability component of the convertible bonds is carried at amortised cost basis until extinguished on conversion or redemption. Any subsequent changes in fair value of the equity component as at the end of reporting period are recognised in the reserve.

On 29 May 2012, the Company redeemed part of the CB 2015 with an aggregate principal amount of HK\$170,635,000 pursuant to redemption notice received from the bondholder in accordance with the terms and conditions of the CB 2015. The bond redeemed was cancelled. The Company determined the fair value of the liability component at the date of redemption based on the amortised cost basis using the effective interest method.

The movements of the liability and equity components of the convertible bonds are as follows:—

	Liability component HK\$'000	Equity component HK\$'000	Total HK\$'000
At 1 April 2011	645,288	427,825	1,073,113
Interest expenses	10,842	—	10,842
Interest expenses waived	(10,730)	—	(10,730)
At 31 March 2012 and 1 April 2012 (audited)	645,400	427,825	1,073,225
Redemption	(102,614)	(68,021)	(170,635)
Interest expenses	4,762	—	4,762
At 30 September 2012 (unaudited)	<u>547,548</u>	<u>359,804</u>	<u>907,352</u>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

## 24. SHARE CAPITAL

	Number of Ordinary Shares of HK\$0.01 each '000	Ordinary shares HK\$'000
<i>Authorised</i>		
As at 30 September 2012 and 31 March 2012	<u>10,000,000</u>	<u>100,000</u>
<i>Issued and fully paid</i>		
As at 30 September 2012 and 31 March 2012	<u>2,713,798</u>	<u>27,138</u>

## 25. SHARE OPTION SCHEME

A share option scheme (the "Scheme II") was adopted and approved pursuant to a resolution of the shareholders of the Company and become effective on 2 February 2009. The Scheme II will remain in force for a period of 10 years since then. For the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any employee, director, supplier of goods or services, customer, agent, adviser, consultant, strategist, contractor, sub-contractor, expert or entity that provides research, development or other technological support or any valuable services to the Company and any of its subsidiaries, shareholder of the Company or any of its subsidiaries or holder of any securities issued by the Company or any of its subsidiaries.

There is no movement of the share option under the Scheme II during the six months ended 30 September 2012 and 30 September 2011.

## 26. GAIN ON DISPOSAL OF SUBSIDIARIES

The Group disposed of its entire equity interest in two wholly-owned subsidiaries, M21 Mastertech Company Limited and M21 Dicast Company Limited which were dormant since 2010, for an aggregate consideration of HK\$5.

	<i>Note</i>	Unaudited Six months ended 30 September 2011 HK\$'000
<b>Net Liabilities disposed of:</b>		
Assets held for sale	20	2,141
Trade and bills payables		(56)
Other payables and accruals		<u>(5,477)</u>
		<u>(3,392)</u>
Consideration received in cash		—
Net liabilities disposed of		<u>3,392</u>
<b>Gain on disposal of subsidiaries</b>		<u>3,392</u>

## 27. DISPOSAL OF INTEREST IN AN ASSOCIATE

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

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

	Unaudited Six months ended 30 September 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>

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

## 28. DISPOSAL OF ASSETS HELD FOR SALE

On 29 May 2012, the Group has completed a transaction in relation to the disposal of its certain prepaid land lease payments, property and equipment which were classified as assets held for sale in the Annual Report 2012. Net sales proceeds 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:—

	<i>Note</i>	<b>Unaudited Six months ended 30 September 2012 HK\$'000</b>
Net sales proceed		170,635
Less: Carrying amounts	20	(102,837)
Exchange difference		(594)
		<hr/>
Gain on disposal of assets held for sale		<b>67,204</b>

## 29. CAPITAL COMMITMENT

The Group had no significant capital commitment as at 30 September 2012 and 31 March 2012.

## 30. CONTINGENT LIABILITY

No material contingent liability of the Group was noted as at 30 September 2012 and 31 March 2012.

## 31. RELATED PARTY TRANSACTIONS

### (a) Key management personnel remuneration

Remuneration of directors and key management personnel of the Group during the six months ended 30 September 2012 was HK\$1,220,000 (30 September 2011: HK\$1,100,000), which is included in staff cost as disclosed in note 10 to the financial statements.

The remuneration of directors and key management personnel of the Group is determined by the remuneration committee having regard to the performance of individuals and market trends.

### (b) Balances with related parties

Balances with related parties are disclosed in note 21.

## 32. EVENT AFTER THE REPORTING PERIOD

The following significant event took place subsequent to the end of the reporting period.

- (a) On 25 September 2012 after trading hours, the Company entered into a placing agreement with a placing agent pursuant to which the placing agent has agreed to place, on a best effort basis, to independent placees for up to 300,000,000 new shares at a price of HK\$0.18 per placing share, for and on behalf of the Company. The placing is not yet completed at the reporting date of this interim report.
- (b) Subsequent to the reporting period, on 3 October 2012, 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.

## 33. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements are unaudited but have been reviewed by the audit committee of the Company and approved for issue by the Board on 12 November 2012.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

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 six months ended 30 September 2012, the Group's turnover and gross profit were HK\$540,020,000 (30 September 2011: HK\$448,459,000) and HK\$143,268,000 (30 September 2011: HK\$131,467,000), which were increased by 20.4% and 9%, respectively compared with the same period last year. Such increases were primarily contributed by continuous business growth of the Group's core operations, namely, tobacco agricultural operation.

With target to streamline the business model and strengthen the utilisation of the Group's resources for a sustainable corporate development strategy, 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.

On 29 May 2012, the Group has completed the disposal of its certain prepaid land lease payments and property and equipment with an aggregate net carrying amount of HK\$102,837,000, 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\$170,635,000. A disposal gain of HK\$67,204,000 was thereby recorded.

On 28 February 2011, the Group had entered into a memorandum of understanding with an independent third party for a possible acquisition of 70% equity interests in a company which was principally engaged in the tobacco related agricultural operation in the PRC. As the memorandum of understanding was expired on 28 August 2011, the Group and the vendor were mutually agreed by verbal to further extend the negotiation. As at to the date of this report, no formal agreement has been entered into by both parties.

### Tobacco agricultural operation

The Group's tobacco agricultural operation has achieved remarkable business performance as a result of the strong market demand on the Group's core product — flue-curing machinery products "KH" series. The Group's tobacco agricultural-related machinery and construction division continue to focus on the manufacturing and sale of tobacco flue-curing agricultural machines, other tobacco-related agricultural machines and provision of tobacco-related agricultural facilities and construction service. For the six months ended 30 September 2012, this division has recorded a total revenue of HK\$536,960,000 (30 September 2011: HK\$445,313,000) and gross profit HK\$142,494,000 (30 September 2011: HK\$130,129,000), which were increased by 20.6% and 9.5%, respectively when compared with the same period last year.

Segment results for the period under review was at profit of HK\$92,392,000, representing 76.2% increase when compared with the same period last year (30 September 2011: HK\$52,428,000). Although the tobacco agricultural operation segment results are encouraging, the management will continue to strengthen the business performance and fine tune its product quality and marketing strategies. Due to the seasonal effect as to unique nature of tobacco business and the soaring direct operating cost in the PRC, this segment has recorded a decrease in sales volume and profit margin in the second financial quarter of 2012 as compared to the first financial quarter of 2012. Facing the austerity policies coupled with severe domestic business environment in the PRC, the management will use its best endeavors to ensure the sustainability of the development of tobacco agricultural operation and is cautiously optimistic about the performance of this operation for the second half of the financial year .

### Digital television operation

The digital television business continued to provide a steady revenue to the Group for the six months ended 30 September 2012. In comparing with the same period last year, the revenue from this business segment was increased by 18% to HK\$2,686,000 (30 September 2011: HK\$2,272,000). The performance of digital television business is gradually improving due to the rising advertising income along with the partial unlocked scientific channel in Hunan Province, PRC. It is expected this business segment will continue to sustain a healthy growth for the second half of the financial year.

### Healthcare products operation

In contrast, the Group's healthcare products operation was facing immense pressure from peer competition and rising operating costs. For the six months ended 30 September 2012, turnover from this operation has been reduced to HK\$374,000 (30 September 2011: HK\$874,000). As the competitive pressure is unlikely to ease while the operating costs are likely standing high in forthcoming years, the path ahead of this operation is not expected to be optimistic. In light of this, the Group is considering possible approaches to improve its performance, or alternatively, may consider disposing of it if opportunity arises.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### FINANCIAL REVIEW

#### Turnover

For the six months ended 30 September 2012, the Group recorded turnover HK\$540,020,000 representing an increase of 20.4% (30 September 2011: HK\$448,459,000) compared to the same period last year. Turnover from tobacco agricultural operation, representing 99.43% of the Group's turnover, increased by 20.6% to HK\$536,960,000 (30 September 2011: HK\$445,313,000). Turnover from digital television operation and healthcare products operation were HK\$2,686,000 and HK\$374,000 respectively, representing 0.5% and 0.07% respectively of the Group's aggregate turnover.

#### Cost of sales and services and gross profit

For the six months ended 30 September 2012, the Group's cost of sales and services mainly included costs of goods sold and delivery costs which together represent 99% of the Group's total cost of sales and services. The Group's gross profit increased by 9% to HK\$143,268,000 (30 September 2011: HK\$131,467,000). The Group's overall gross profit margin has slightly diminished to 26.6% for as compare to same period last year (30 September 2011: 29.3%).

#### Distribution costs and administrative expenses

For six months ended 30 September 2012, the Group recorded total distribution costs HK\$21,145,000 (30 September 2011: HK\$22,655,000) and which mainly consisted of staff costs, travelling expenses and entertainment. Administrative expenses for the six months ended 30 September 2012 have decreased by 13% to HK\$41,068,000 (2011: HK\$47,226,000) as a result of the effective cost control. With the challenging business environment ahead, the Group will strive to strengthen the financial effectiveness with a prudent approach to control the Group's overall administrative expenses.

#### Finance costs

The finance costs were slightly increased by 2.4% to HK\$16,421,000 (30 September 2011: HK\$16,043,000). The Group will look forward to minimising finance costs.

#### Profit from operations

Overall, for the six months ended 30 September 2012, the profit attributable to owners of the Company was HK\$115,267,000 (30 September 2011: HK\$23,450,000), representing an increase of 391.5% compared to the same period last year. The increase in profit attributable to owners of the Company were mainly due to the strong operating result from the tobacco agricultural industry and gain on disposal of assets held for sale.

#### Liquidity, financial resources and capital structure

As at 30 September 2012, the Group's cash and bank balances was HK\$123,381,000 (31 March 2012: HK\$160,755,000), and it also had current assets of HK\$1,119,537,000 (31 March 2012: HK\$1,180,702,000) and liquid assets of HK\$992,559,000 (31 March 2012: HK\$920,480,000), excluding pledged bank deposits secured for bank borrowings. The Group's current ratio at the period ended date, calculated based on current assets of HK\$1,119,537,000 (31 March 2012: HK\$1,180,702,000) divided by current liabilities of HK\$735,768,000 (31 March 2012: HK\$887,345,000), was at a healthy ratio of 1.52 (31 March 2012: 1.33). The Group's outstanding bank borrowings were HK\$534,988,000 as at 30 September 2012 (31 March 2012: HK\$712,962,000) and all of which were denominated in Renminbi. All borrowings are due to mature within one year, out of which 20.8% with fixed rate interest and 78.1% with floating rate interest.

On 25 September 2012, the Company has entered into a placing agreement with one independent individual to place a total of 300,000,000 new shares at an exercise price of HK\$0.18, representing approximately 11.05% of the entire issued share capital of the Company of 2,713,798,244 shares as at the date of entering into the placing agreement, and approximately 9.95% of the Company's entire issued share capital as enlarged by the placing. The placing is not yet completed at this reporting date. The expected net proceeds from placing of approximately HK\$5.72 million will be used for general working capital of the Group.

#### Gearing ratio

The Group finances its operations through a combination of bank financing and shareholder's equity. The Group's gearing ratio is determined as its total debts divided by total assets. The gearing ratio was 56.1% for the six months ended 30 September 2012 (31 March 2012: 63.2%).

With the amounts of liquid assets on hand as well as credit facilities available, the management is of the view that the Group will have sufficient financial resources to meet its ongoing operational requirements.

#### Significant investment

As at 30 September 2012, there was no significant investment held by the Group.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **FINANCIAL REVIEW** *(continued)*

#### **Foreign currency management**

The monetary assets and liabilities and business transactions of the Group was mainly carried and conducted in Hong Kong dollars and Renminbi. The Group continues to maintain a prudent strategy in its foreign currency risk management, to a large extent, foreign exchange risks are minimised by balancing the foreign currency monetary assets versus the corresponding currency liabilities, and foreign currency revenues versus the corresponding currency expenditures. In light of the above, it is considered that the Group's exposure to foreign exchange risk is insignificant and no hedging measure has been undertaken by the Group.

#### **Pledge of assets**

As at 30 September 2012, the Group's certain leasehold land and buildings (including prepaid land lease payments) with aggregate carrying amount of approximately HK\$32,971,000 (31 March 2012: HK\$34,551,000) were pledged to secure general banking facilities granted to the Group.

As at 30 September 2012, the Group's bank deposits denominated in Renminbi of HK\$126,978,000 (31 March 2012: HK\$260,222,000) were pledged to secure the banking facilities granted to the Group.

#### **Contingent liability**

The Group had no significant contingent liability as at 30 September 2012 and 31 March 2012.

#### **Capital commitment**

The Group had no capital commitment as at 30 September 2012 and 31 March 2012.

### **EMPLOYEE**

As at 30 September 2012, the Group had 392 employees including directors (30 September 2011: 670). Total staff costs, including directors' emoluments for the six months ended 30 September 2012 was HK\$19,127,000 (30 September 2011: HK\$24,096,000). The decrease in head count were mainly due to the disposal of a subsidiary, Jiangsu Kedi Runxin Steel Construction Company Limited, on 16 January 2012, and deconsolidation of subsidiaries, Xian Shenghua Group, on 8 December 2011. Salary package for employees are benchmarked to market conditions, staff's experience and individual performance. Other benefits offered by the Group included medical insurance, mandatory provident fund scheme, training subsidies, share option scheme and discretionary bonus.

### **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 flue-curing 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 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.

## OTHER INFORMATION

### INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2012 (30 September 2011: Nil).

### 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 30 September 2012, 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 market 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 ordinary shares of the Company

Name of Director	Capacity and nature of interest	Number of Shares and underlying Shares held	Approximate percentage of the 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 (notes (a) and (b))	73.14%
Mr. Feng Xiaoping (note (c))	Interests held by controlled corporation	31,618,750	1.17%

#### Notes:

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

Save as disclosed above, as at 30 September 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.

### SHARE OPTION SCHEME

There are no movement of the share options during the six months ended 30 September 2012 under the Scheme II. There are totally 67,000,000 share options outstanding held by the grantees as at 30 September 2012. Further details of the share option scheme are as disclosed in the Company's Annual Report 2012.

Subsequent to the reporting period, on 3 October 2012, 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.

## OTHER INFORMATION *(continued)*

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

As at 30 September 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 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:

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>(notes (a) and (b))</i>	73.05
Stepwise International Holdings Limited ("Stepwise")	—	—	1,982,326,744 <i>(notes (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 and in the above section headed "Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation", the Company had not been notified of any other interests or short positions in the issued share capital of the Company to be recorded under Section 336 of the SFO as at 30 September 2012.

### 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 six months ended 30 September 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, the 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, a 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.



## **OTHER INFORMATION** *(continued)*

### **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 six months ended 30 September 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 six months ended 30 September 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 six months ended 30 September 2012. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the six months ended 30 September 2012.

On behalf of the Board  
**Code Agriculture (Holdings) Limited**

**Jingquan Yingzi**  
*Chairman*

Hong Kong, 12 November 2012