



CODE AGRICULTURE (HOLDINGS) LIMITED

科地農業控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 8153)

**FIRST QUARTERLY REPORT
2014**

Three-month period ended
30 June 2014

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 (the “Directors”) of Code Agriculture (Holdings) Limited (the “Company”) collectively and individually accept full responsibility, includes particular given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement herein or this report misleading.

UNAUDITED FIRST QUARTERLY RESULTS

The board of directors (the “Board”) of Code Agriculture (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 30 June 2014, together with comparative unaudited figures for the corresponding period in 2013, as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2014

	Note	Three months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Turnover	3	54,214	255,851
Cost of sales and services		<u>(34,076)</u>	<u>(169,714)</u>
Gross profit		20,138	86,137
Other revenue	4	2,006	3,482
Distribution costs		(9,184)	(29,495)
Administrative expenses		<u>(13,177)</u>	<u>(31,024)</u>
(Loss)/profit from operations		(217)	29,100
Other losses	5	(2,806)	(12,670)
Finance costs	6	<u>(8,653)</u>	<u>(6,941)</u>
(Loss)/profit before income tax	7	(11,676)	9,489
Income tax credit/(expense)	8	<u>654</u>	<u>(4,836)</u>
(Loss)/profit for the period		<u>(11,022)</u>	<u>4,653</u>
(Loss)/profit for the period attributable to:			
– Owners of the Company		(10,074)	5,842
– Non-controlling interests		<u>(948)</u>	<u>(1,189)</u>
		<u>(11,022)</u>	<u>4,653</u>
		HK cents	HK cents
(Loss)/earnings per share			
– Basic and diluted	9	<u>(0.37)</u>	<u>0.22</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2014

	Three months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
(Loss)/profit for the period	(11,022)	4,653
Other comprehensive income for the period		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences reclassified on disposal of subsidiaries	<u>(3,548)</u>	<u>–</u>
Total comprehensive income for the period	<u>(14,570)</u>	<u>4,653</u>
Total comprehensive income for the period attributable to:		
– Owners of the Company	(13,622)	5,842
– Non-controlling interests	<u>(948)</u>	<u>(1,189)</u>
	<u>(14,570)</u>	<u>4,653</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2014

	Attributable to owners of the Company							Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Merger reserve HK\$'000 (note a)	Statutory reserve HK\$'000 (note b)	Share option reserve HK\$'000	Exchange reserve HK\$'000			
At 1 April 2013	27,138	1,056,184	(1,401,360)	(197)	24,347	17,524	80,720	(195,644)	1,790	(193,854)
Profit for the period	-	-	5,842	-	-	-	-	5,842	(1,189)	4,653
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	5,842	-	-	-	-	5,842	(1,189)	4,653
Share option scheme – Value of services	-	-	-	-	-	375	-	375	-	375
At 30 June 2013	<u>27,138</u>	<u>1,056,184</u>	<u>(1,395,518)</u>	<u>(197)</u>	<u>24,347</u>	<u>17,899</u>	<u>80,720</u>	<u>(189,427)</u>	<u>601</u>	<u>(188,826)</u>
At 1 April 2014	27,138	1,056,184	(1,638,679)	(197)	24,347	7,915	87,643	(435,649)	(3,472)	(439,121)
Loss for the period	-	-	(10,074)	-	-	-	-	(10,074)	(948)	(11,022)
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-
– Exchange differences reclassified on disposal of subsidiaries	-	-	-	-	-	-	(3,548)	(3,548)	-	(3,548)
Total comprehensive income for the period	-	-	(10,074)	-	-	-	(3,548)	(13,622)	(948)	(14,570)
Released on disposal of subsidiaries	-	-	-	-	-	-	-	-	(1,410)	(1,410)
At 30 June 2014	<u>27,138</u>	<u>1,056,184</u>	<u>(1,648,753)</u>	<u>(197)</u>	<u>24,347</u>	<u>7,915</u>	<u>84,095</u>	<u>(449,271)</u>	<u>(5,830)</u>	<u>(455,101)</u>

Notes:

- The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the shares issued by the Company in exchange thereof pursuant to the Group reorganisation on 20 March 2001 as set out in the prospectus of the Company dated 26 March 2001.
- In accordance with relevant regulations prevailing in the People's Republic of China (the "PRC"), the certain subsidiaries of the Company, established in the PRC, are required to appropriate no less than 10% of their net profits to the statutory reserves, until the respective balances of the fund reach 50% of the respective registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to offset respective accumulated losses or for capitalisation as paid-up capital of the subsidiaries.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Code Agriculture (Holdings) Limited (the “Company”) is 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 registered office address of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is Rooms 1120–26, 11th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (HK\$), unless otherwise stated. The condensed consolidated financial statements for the three months ended 30 June 2014 are unaudited but have been reviewed by the audit committee of the Company and approved for issue by the Board on 13 August 2014.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”). The unaudited condensed consolidated financial statements do not include all the information required in annual financial statements in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standard (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2014 (the “Annual Report 2014”).

The accounting policies and methods of computation applied in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in preparing the Annual Report 2014 except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 April 2014. The adoption of these new or revised standards, amendments and interpretations did not result in any substantial changes to the accounting policies of the Group. In addition, the Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The preparation of the unaudited condensed consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. The significant judgments, estimates and assumptions applied in the preparation of the unaudited condensed consolidated financial statements are consistent with those used in the Annual Report 2014.

Going concern

The Group incurred unaudited loss for the period ended 30 June 2014 of approximately HK\$11.0 million and as of that date, the Group recorded both unaudited net current liabilities and net liabilities. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

The Directors as stated in the Annual Report 2014 have taken the following actions to mitigate the liquidity issues facing by the Group and the Company:

- (i) The Company received a letter from Cyberland (China) Limited (“Cyberland”), which holds the convertible bond (the “CB 2015”) of principal amount outstanding of approximately HK\$652.4 million issued by the Company, that Cyberland may consider the following arrangements: (a) unconditional and non-recourse waiver of around HK\$200 million to HK\$300 million of the CB 2015 without recourse; (b) early redemption of around HK\$200 million to HK\$300 million of the CB 2015 in cash or by way of other assets of the Group; and (c) remaining balance of which to be replaced by an unsecured loan with tenure not less than 2 years or partial or full capitalisation by exercising the right of conversion prior to the maturity of CB 2015;
- (ii) The Group is in negotiation with financial institutions for new borrowings and extension of existing borrowings upon their due date;
- (iii) A substantial shareholder and a director of the Company have confirmed to provide continuous financial support to the Company; and
- (iv) The Group has adopted austerity measures to control and minimize administrative expenses and streamline the business model by disposal or closure of non-performing operation in the PRC.

In light of the measures and arrangements as described above, the directors consider the Group have adequate working capital to meet its financial obligation as and when they fall due. Accordingly, the directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. TURNOVER – UNAUDITED

	Three months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Sale of agricultural machinery	51,770	252,784
Sale of fertilizer and pesticide	–	1,800
Provision of digital television services	2,432	1,241
Sale of cordyceps-related and other healthcare products	12	26
	<u>54,214</u>	<u>255,851</u>

4. OTHER REVENUE – UNAUDITED

	Three months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Government grants	250	–
Interest income	127	1,315
Waiver of interest expense on convertible bond	1,627	2,125
Sundry income	2	42
	<u>2,006</u>	<u>3,482</u>

5. OTHER LOSSES – UNAUDITED

	Three months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Change in fair value of financial assets designated at fair value through profit or loss	25	–
Loss on redemption of convertible bond	–	12,670
Gain on disposal of subsidiaries	(11,055)	–
Impairment loss on trade receivables	13,836	–
	<u>2,806</u>	<u>12,670</u>

6. FINANCE COSTS – UNAUDITED

	Three months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Interest on bank loans wholly repayable within five years	3,841	3,602
Interest on other loans	4,812	3,339
	<u>8,653</u>	<u>6,941</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7. (LOSS)/PROFIT BEFORE INCOME TAX – UNAUDITED

	Three months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
(a) Staff costs		
Contributions to defined contribution retirement plans	404	574
Equity-settled share-based payment expenses	–	375
Salaries, wages and other benefits	4,353	7,549
	<u>4,757</u>	<u>8,498</u>
(b) Other items		
Amortisation		
– prepaid land lease payments	69	68
– other intangible assets	4,774	15,697
Cost of inventories recognised as expenses	33,814	169,124
Depreciation on property, plant and equipment	1,157	1,836
Operating lease charges: minimum lease payments		
– hire of building	1,070	2,064
– hire of office equipment	15	17
Research and development costs	968	1,629
	<u>968</u>	<u>1,629</u>

8. INCOME TAX (CREDIT)/EXPENSE – UNAUDITED

	Three months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	–	–
Current tax – PRC Enterprise Income Tax		
Provision for the period	29	6,471
Under provision for the prior periods	15	–
	<u>44</u>	<u>6,471</u>
Deferred tax		
Origination and reversal of temporary difference	(698)	(1,635)
	<u>(654)</u>	<u>4,836</u>

No provision for Hong Kong profits tax has been made in the financial statements as there were no estimated assessable profits for the three months ended 30 June 2014 and 2013.

Under the Corporate Income Tax Law of the People's Republic of China ("New CIT Law"), in general, the applicable income tax rate of enterprises in China is 25%. Pursuant to relevant requirements, enterprises recognised as "High-Tech Enterprises" are entitled to a favorable statutory tax rate of 15% according to the New CIT Law. Jiangsu Kedi Modern Agriculture Co., Ltd, an indirectly wholly owned subsidiary of the Company, has been approved and certified by relevant authorities as a "High-Tech Enterprise" and is entitled to the favorable statutory tax rate of 15% from 2013 to 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. (LOSS)/EARNINGS PER SHARE – UNAUDITED

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Company.

	Three months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
(Loss)/profit attributable to the owners of the Company	<u>(11,667)</u>	<u>5,842</u>
	2014 '000	2013 '000
Number of shares		
Weighted average number of ordinary shares in issue	<u>2,713,798</u>	<u>2,713,798</u>

Basic and diluted (loss)/earnings per share for the three months ended 30 June 2014 and 2013 have been presented as equal because the exercise prices of the Company's share options were higher than the average market price for these periods and therefore the effect is considered as anti-dilutive.

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the three months ended 30 June 2014 and 2013 in respect of a dilution as the impact of the convertible bond outstanding had an anti-dilutive effect on the basic (loss)/earnings per share amounts presented.

INTERIM DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 30 June 2014 (2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Along with last financial year, the overall business performance of the Group for the three months ended 30 June 2014 was continuously not satisfactory because of the shrinking demand, uncertainties over local policies and sluggish economy in the PRC. The management has been making its best effort to overcome such hurdles by adoption of stringent cost control, closure of persistent non-performance business section for better resources utilization, liaison for potential business opportunity and possible of capital injection from external investors. The management will continue to negotiate with Cyberland for possible exit of the CB 2015 issued by the Company to Cyberland of remaining outstanding principal amount of approximately HK\$652.4 million. The Company will try its best endeavor to improve its liquidity issues and wrap up the outstanding matters in relation to the unsecured loan of principal amount of approximately HK\$51.2 million borrowed from an independent third party as mentioned in the Annual Report 2014.

Tobacco agricultural operation

The tobacco agricultural operation has a significant setback of revenue of HK\$51.8 million (2013: HK\$252.8 million) for the period under review. The decrease was primarily due to the shrinkage of sales of tobacco flue-curing barns in the PRC and uncertain market sentiment. It is also observed that the rising production overheads are engulfing profit from operations. Despite the management's efforts taken in respect of cost control, expansion of product scope and having deployed more resources to enhance the sale of greenhouse and other transplanting machinery, this operation is still far from satisfaction.

Fertilizer and pesticide operation

There was no sale of fertilizer and pesticide for the period under review (2013: HK\$1.8 million) as most of the resources have been deployed to other business segment. The management may consider either downsizing or repositioning of this operation. Management believe that of the biological fertilizers like BM series which are generally applied in soil transformation for tobacco cultivation still have keen market demand. The management is also aware that in order to secure optimal profit, the Company must set up its own research and development team with a production plant which involves tremendous initial capital input. Financially, it is not feasible to establish the production plant for mass production in the short run. As a totality of considerations, the Group finally retreated from this operation by disposal the business vehicle – Henan Baorong Biological Technology Company Limited to a non-controlling shareholder at a consideration of RMB5,050,000 on 30 May 2014.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

BUSINESS REVIEW *(continued)*

Digital television operation

The digital television operation has recorded a revenue of HK\$2.4 million (2013: HK\$1.2 million) representing an increase of 96.0% as compared to same period last year. The increase in turnover was mainly caused by increasing advertising income from the operation of the broadcasting channels in Hunan Province of the PRC. Although this operation has recorded significant increase in its turnover, peer competitors and substitutions in the internet are also imposing pressure to its sustainability.

Other operation

The healthcare products operation was severely underperformed with insignificant sales of HK\$12,000 for the period up to 30 May 2014 (2013: HK\$26,000). The non-performance was mainly due to the significant reduction in the demand of cordyceps-related healthcare products, industry competition and surge in operating costs. This operation which mainly conducted through Hong Kong New Success International Group Investment Company Limited and its two subsidiaries in PRC was disposed at a consideration of HK\$1 on 30 May 2014. The management considers that the disposal of such non-performing business could facilitate the resources utilization within the Group.

FINANCIAL REVIEW

Turnover

For the period under review, the Group's turnover was HK\$54.2 million, representing a significant decrease of 78.8% (2013: HK\$255.8 million) as compared to the same period last year. The decrease was mainly due to the sales shrinkage of tobacco flue-curing barns and uncertain market conditions in major tobacco-growing areas in the PRC.

Cost of sales and services and gross profit

For the three months ended 30 June 2014, the Group's cost of sales and services mainly included costs of goods sold, sheet steel, direct wages and delivery costs was decreased to HK\$34.1 million (2013: HK\$169.7 million), and the Group's gross profit was also reduced to HK\$20.1 million (2013: HK\$86.1 million). The significant decrease in cost of sales was in line with the decrease in turnover for the period under review. The Group's overall gross profit margin has slightly improved by 3.4% to 37.1% (2013: 33.7%) as compared to same period last year. The management will keep close monitoring the sheet steel prices, logistic cost, production overheads and product mix in order to maintain a stable and reasonable profit margin.

Distribution costs and administrative expenses

The Group recorded distribution costs of HK\$9.2 million for the period under review (2013: HK\$29.5 million), showing a decrease of 68.9% as compared to same period last year. However, the magnitude of such decrease was not in line with the drop in turnover of 79%. One of the reasons was that the delivery costs which account for higher portion of the total cost of distribution is difficult to minimise. Relevant staff costs involved in the distribution has slightly increased which accounted for approximately 19.2% (2013: 14.0%) of the total distribution costs of the period under review. The management will continue to streamline the logistic flow in order to achieve an optimal distribution costs.

Administrative expenses for the three months ended 30 June 2014 have significant decreased by 57.5% to HK\$13.2 million (2013: HK\$31.0 million). The administrative expenses mainly included amortisation on other intangible assets of HK\$4.8 million (2013: HK\$15.7 million), and staff costs totally of HK\$2.5 million (2013: HK\$3.4 million). The Group will continue to adopt stringent cost controls to minimise administrative expenses.

Other losses

Other losses amounting to HK\$2.8 million (2013: 12.7 million) for the three months ended 30 June 2014 included a gain on disposal of subsidiaries of HK\$11.1 million and a impairment loss on trade receivables of HK\$13.8 million, whereas in the same period last year, a loss of HK\$12.7 million was recorded as a result of the redemption of convertible bond certificate number 3 of aggregate principal amount of HK\$50,000,000 issued by the Company. As at 30 June 2014, the Company's convertible bond of the principal amount of HK\$652,400,500 remains outstanding with maturity date in March 2015.

Finance costs

Interest expenses on bank and other loans for the three months ended 30 June 2014 was HK\$8.7 million, representing an increase of 24.7% compared with same period last year of HK\$6.9 million. Such increase was mainly due to the less favourable interest rates on interest bearing loans and increase in interest expense on SME private bond for the three months ended 30 June 2014.

Loss/profit attributable to owners of the Company

The loss attributable to owners of the Company amounted to HK\$10.1 million for the three months ended 30 June 2014 (2013: a profit of HK\$5.8 million). The loss attributable to owners of the Company was mainly due to the shrinkage of total turnover of the Group and inflating operating costs, in particular, the delivery and transportation costs, direct labour costs and production overheads.

OTHERS

PROSPECTS

Being one of the major manufacturers of intensive flue-curing barn equipment in the agricultural machinery industry, one of the Group's goals is to assist a sustainable modernisation of agricultural technology in the PRC as outlined in the "Mid-to-long term Technology Development Plan" in the tobacco industry issued by State Tobacco Monopoly Administration ("STMA"), to implement policies and business strategies in the best interests of our shareholders, tobacco farmers and other stakeholders.

The Company has encountered a difficult business environment along with the slow-down in economy in the PRC and liquidity issues of the Company. Both the turnover and gross profit have recorded a decline. In response to the unfavourable market factors and to minimize business risk, the Company is trying to enhance the conventional core business of manufacturing of flue-curing barn for tobacco and reallocate more resources in the trading of transplanting machine, cultivator hiller and greenhouse building. The Group will also continue to explore other business opportunities of flue-curing barn by curing other agricultural products, for example, herbal and vegetables on a trial basis with minimal input. We believe by the development of a multi – functional and cost-effective flue-curing barn can facilitate the modernisation of agriculture and contribute to the livelihood of general farm communities in the PRC.

The Group remains cautiously optimistic towards the business of agriculture machinery industry despite the uncertainties in the complicated economic environment coupled with the going concern issues.

CONTINGENT LIABILITIES

At 30 June 2014, the Group had no material contingent liabilities.

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

As at 30 June 2014, the interests and short positions of the Directors and chief executives of the Company in the ordinary share of HK\$0.01 each in the share capital of the Company ("Shares"), underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")), as recorded in the register which is required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the SFO or the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") were as follows:

Long positions in the Shares and underlying Shares

Name of Director	Capacity and nature of interests	Number of Shares and underlying Shares held	Approximate percentage of shareholding
Ms. Jingquan Yingzi	Interests held by controlled corporation and beneficial owner	1,562,430,465 (note (a))	57.57%
Mr. Wong Man Hung Patrick	Beneficial owner	32,000,000 (note (b))	1.18%

Notes:

- (a) Totally, there are 1,517,210,465 underlying Shares held by Cyberland which is legally and beneficially owned as to 30.37% by Rise Enterprises Limited ("Rise Enterprises") and 15% by Wealth Way Investment Limited ("Wealth Way"), respectively. Rise Enterprises is beneficially owned as to 62.96% by Eagle Bliss Limited which in turn was wholly owned by Ms. Jingquan Yingzi ("Ms. Jingquan"), an executive Director of the Company, while Wealth Way is directly and wholly owned by Ms. Jingquan. Cyberland is in aggregate indirectly 34.12% owned by Ms. Jingquan. For the purpose of Part XV of SFO, Ms. Jingquan is deemed to be interested in the Shares of the Company.
- (b) Mr. Wong Man Hung Patrick has resigned as an executive Director of the Company with effect from 8 August 2014.

Save as disclosed above, as at 30 June 2014, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of GEM Listing Rules relating to securities transactions by Directors.

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

As at 30 June 2014, so far as was known to the Directors, the following persons (not being Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Name of shareholders	Capacity	Number of Shares/underlying Shares held (long position)	Percentage of Shareholding
Mr. Lee Yuk Lun	Beneficial interest	219,298,244	8.08%
Cyberland (China) Limited	Beneficial interest	1,517,210,465 (note (a) and (d))	55.91%
Stepwise International Holdings Limited	Interest of a controlled corporation	1,517,210,465 (note (a), (b) and (d))	55.91%
Ms. Wu Shuhua	Interest of child under 18 or spouse	1,519,660,465 (notes (c) and (d))	56.00%

Notes:

- Cyberland (China) Limited is legally and beneficially owned as to 54.63% by Stepwise International Holding Limited ("Stepwise").
- Stepwise is legally and beneficially wholly owned by Mr. Shan. Mr. Shan has resigned as an executive Director of the Company on 2 November 2013.
- 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.
- The interests refer to the same parcel of underlying Shares.

Save as disclosed above, no other person had any interests or short positions in the Shares or underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SHARE OPTION SCHEME

A share option scheme was adopted by the shareholders of the Company and became effective on 2 February 2009 and shall remain in force for a period of 10 years from that date. There is no movement of share options for the period under review and the outstanding share options as at 30 June 2014 is presented as follows:—

Category of participants	Date of grant	Exercise price per share HK\$	Validity period	Number of share options				As at 30.6.2014
				As at 01.04.2014	Granted during the period	Exercised during the period	Lapsed during the period	
Employees	10.12.2010 (note)	0.163	03.10.2012 to 02.10.2014	5,000,000	—	—	—	5,000,000
Consultants	10.12.2010 (note)	0.163	03.10.2012 to 02.10.2014	25,000,000	—	—	—	25,000,000
	03.10.2012	0.163	03.10.2012 to 02.10.2014	135,000,000	—	—	—	135,000,000
Director	03.10.2012	0.163	03.10.2012 to 02.10.2014	7,000,000	—	—	—	7,000,000
				<u>172,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>172,000,000</u>

Note:

On 3 October 2012, the Company modified the details of the outstanding share options previously granted by the Company on 10 December 2010. The exercise price of 60,000,000 the outstanding share options at the date of modification was reduced from HK\$0.328 per share to HK\$0.163 per share.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and Chief Executives' interests and short positions in Shares, underlying Shares and debentures of the Company or any associated corporation" and the share option scheme above, at no time during the three months ended 30 June 2014 was rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CORPORATE GOVERNANCE PRACTICES

The Board of the view that the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 15 to the GEM Listing Rules for the three months ended 30 June 2014.

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 three months ended 30 June 2014.

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.

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months ended 30 June 2014. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the three months ended 30 June 2014.

AUDIT COMMITTEE

The Audit Committee has its terms of reference revised on 26 March 2014. The primary duties of the Audit Committee are to review the Group's annual report and accounts, half-year report and quarterly reports and to 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 currently comprises of all the independent non-executive directors of the Company, namely Mr. Lee Chi Hwa, Joshua ("Mr. Lee"), Mr. Sousa Richard Alvaro and Mr. Zhao Zhizheng and it is chaired by Mr. Lee since 7 January 2014. The Audit Committee together with the management has reviewed the accounting principles and practices adopted by the Group, the unaudited first quarterly results for the three months ended 30 June 2014, and discussed the financial control, internal control and risk management systems.

On behalf of the Board
Code Agriculture (Holdings) Limited

Jingquan Yingzi
Chairman

Hong Kong, 13 August 2014

As of the date of this report, the executive Directors are Ms. Jingquan Yingzi (Chairman), Mr. Wu Zhongxin 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 Mr. Zhao Zhizheng.