



**CODE AGRICULTURE (HOLDINGS) LIMITED**

**科地農業控股有限公司**

(Incorporated in Bermuda with limited liability)

**(Stock Code: 8153)**

**THIRD QUARTERLY REPORT**

**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 particulars given in compliance with the Rules Governing the Listing of Securities on the 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.*

## THIRD QUARTERLY RESULTS

The board of directors (the “Board”) of the Company hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 31 December 2014, together with the unaudited comparative figures for the corresponding period in 2013 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 31 December 2014

	Note	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Turnover	3	28,864	49,872	109,087	454,467
Cost of sales and services		(20,750)	(36,750)	(73,452)	(308,699)
Gross profit		8,114	13,122	35,635	145,768
Other revenue	4	2,326	2,264	6,737	8,650
Distribution costs		(5,786)	(37,204)	(22,006)	(91,384)
Administrative expenses		(7,353)	(35,140)	(28,044)	(92,846)
Loss from operations		(2,699)	(56,958)	(7,678)	(29,812)
Other losses	5	–	(11)	(29,116)	(104,333)
Finance costs	6	(5,445)	(7,495)	(23,113)	(22,100)
<b>Loss before income tax</b>	7	<b>(8,144)</b>	<b>(64,464)</b>	<b>(59,907)</b>	<b>(156,245)</b>
Income tax (expense)/credit	8	(2,528)	8,502	(1,894)	4,178
<b>Loss for the period</b>		<b>(10,672)</b>	<b>(55,962)</b>	<b>(61,801)</b>	<b>(152,067)</b>
<b>Loss for the period attributable to:</b>					
Owners of the Company		(10,643)	(54,965)	(60,823)	(148,709)
Non-controlling interests		(29)	(997)	(978)	(3,358)
		<b>(10,672)</b>	<b>(55,962)</b>	<b>(61,801)</b>	<b>(152,067)</b>
<b>Loss per share for loss attributable to owners of the Company during the period</b>					
Basic and diluted – HK cents per share	9	(0.39)	(2.03)	(2.24)	(5.48)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 31 December 2014

	Unaudited Three months ended 31 December 2014		Unaudited Nine months ended 31 December 2014	
	HK\$'000	2013 HK\$'000	HK\$'000	2013 HK\$'000
<b>Loss for the period</b>	<b>(10,672)</b>	<b>(55,962)</b>	<b>(61,801)</b>	<b>(152,067)</b>
<b>Other comprehensive income for the period</b>				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Exchange differences reclassified on disposal of subsidiaries	–	–	(3,548)	–
<b>Total comprehensive income for the period</b>	<b>(10,672)</b>	<b>(55,962)</b>	<b>(65,349)</b>	<b>(152,067)</b>
<b>Total comprehensive income for the period attributable to:</b>				
Owners of the Company	(10,643)	(54,965)	(64,371)	(148,709)
Non-controlling interests	(29)	(997)	(978)	(3,358)
	<b>(10,672)</b>	<b>(55,962)</b>	<b>(65,349)</b>	<b>(152,067)</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2014

	Attributable to owners of the Company								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	Sub-total 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)
Loss for the period	-	-	(148,709)	-	-	-	-	(148,709)	(3,358)	(152,067)
Other comprehensive income for the period	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	(148,709)	-	-	-	-	(148,709)	(3,358)	(152,067)
Share option scheme: - Value of services	-	-	-	-	-	762	-	762	-	762
At 31 December 2013 (unaudited)	<u>27,138</u>	<u>1,056,184</u>	<u>(1,550,069)</u>	<u>(197)</u>	<u>24,347</u>	<u>18,286</u>	<u>80,720</u>	<u>(343,591)</u>	<u>(1,568)</u>	<u>(345,159)</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	-	-	(60,823)	-	-	-	-	(60,823)	(978)	(61,801)
Other comprehensive income for the period	-	-	-	-	-	-	(3,548)	(3,548)	-	(3,548)
Total comprehensive income for the period	-	-	(60,823)	-	-	-	(3,548)	(64,371)	(978)	(65,349)
Released on disposal of subsidiaries	-	-	-	-	-	-	-	-	(1,410)	(1,410)
Share option scheme: - Lapse of share options	-	-	7,915	-	-	(7,915)	-	-	-	-
At 31 December 2014 (unaudited)	<u>27,138</u>	<u>1,056,184</u>	<u>(1,691,587)</u>	<u>(197)</u>	<u>24,347</u>	<u>-</u>	<u>84,095</u>	<u>(500,020)</u>	<u>(5,860)</u>	<u>(505,880)</u>

Notes:

- (a) The merger reserve of the Group represents the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the shares issued by the Company in exchange thereof pursuant to the Group reorganisation on 20 March 2001 as set out in the prospectus of the Company dated 26 March 2001.
- (b) 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

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the GEM of the Stock Exchange. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the address of its principal place of business in Hong Kong is Rooms 1120–26, 11th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong.

The Company is an investment holding company and the principal activities of the Group are the manufacturing and sale of agricultural intensive flue-curing barns and trading of related machinery, and provision of digital television broadcasting services in the PRC.

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 and nine months ended 31 December 2014 (the “Third Quarterly Financial Statements”) are unaudited but were reviewed by the Audit Committee of the Company (the “Audit Committee”) and approved for issue by the Board on 11 February 2015.

## 2. BASIS OF PREPARATION

The Third Quarterly 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 Third Quarterly 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 Third Quarterly 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 Third Quarterly 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 Third Quarterly 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 Third Quarterly Financial Statements are consistent with those used in the Annual Report 2014.

### Going concern

The Group incurred unaudited loss for the period ended 31 December 2014 of approximately HK\$61.8 million and as at 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:

- (i) The Company has been in negotiation with 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. 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 director of the Company did provide continuous financial support to the Company during the reporting period and a substantial shareholder has also 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.

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

### 2. BASIS OF PREPARATION *(continued)*

In light of the measures and arrangements as described above, the Directors consider the Group has adequate working capital to meet its financial obligation when they fall due. Accordingly, the Directors are of the opinion that it is appropriate to prepare the Third Quarterly 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 Third Quarterly Financial Statements.

### 3. TURNOVER

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Sales of agricultural machinery	27,055	43,268	102,367	437,185
Sales of fertilizer and pesticide	–	5,090	–	13,743
Provision of digital television services	1,809	1,474	6,707	3,451
Sales of cordyceps-related and other healthcare products	–	40	13	88
	<u>28,864</u>	<u>49,872</u>	<u>109,087</u>	<u>454,467</u>

### 4. OTHER REVENUE

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Interest income	539	116	1,249	2,185
Waiver of interest expenses on convertible bond	1,644	2,148	4,915	6,422
Gain on disposal of property, plant and equipment	–	–	165	–
Government grants	125	–	375	–
Sundry income	18	–	33	43
	<u>2,326</u>	<u>2,264</u>	<u>6,737</u>	<u>8,650</u>

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

### 5. OTHER LOSSES

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Change in fair value of convertible bond	–	–	17,307	36,918
Change in fair value of financial assets designated at fair value through profit or loss	–	–	25	–
Gain on disposal of subsidiaries	–	–	(11,055)	–
Loss on redemption of convertible bond	–	–	–	12,670
Impairment loss on property, plant and equipment	–	11	–	11
Impairment loss on trade receivables	–	–	10,246	54,734
Impairment loss on other receivables	–	–	12,593	–
	<u>–</u>	<u>11</u>	<u>29,116</u>	<u>104,333</u>

### 6. FINANCE COSTS

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Interests on bank loans wholly repayable within five years	4,011	2,482	14,190	8,836
Interests on other loans	1,434	5,013	8,923	13,264
	<u>5,445</u>	<u>7,495</u>	<u>23,113</u>	<u>22,100</u>

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

### 7. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>Staff costs (including Directors' emoluments)</b>				
Salaries, wages and other benefits	3,982	8,686	13,889	26,586
Equity-settled share-based payment expenses	–	1	–	127
Contributions to defined contribution retirement plans	430	602	1,169	1,919
	<u>4,412</u>	<u>9,289</u>	<u>15,058</u>	<u>28,632</u>
<b>Other items</b>				
Cost of inventories recognised as expenses	20,285	35,581	71,321	304,922
Amortisation				
– prepaid land lease payments	69	68	207	205
– other intangible assets	2	9,665	4,777	34,370
Depreciation on property, plant and equipment	1,284	2,011	3,363	6,168
Gain on disposals of property, plant and equipment	–	–	(165)	–
Loss on write-off of property, plant and equipment	–	–	15	–
Operating lease charges: minimum lease payments				
– hire of buildings	1,267	2,217	3,202	5,283
– hire of office equipment	15	18	45	52
Research and development costs	989	6,102	2,689	13,721

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

### 8. INCOME TAX EXPENSE/(CREDIT)

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
<b>Current tax – Hong Kong Profits Tax</b>				
Provision for the period	–	–	–	–
<b>Current tax – PRC Enterprise Income Tax (“EIT”)</b>				
Provision for the period	45	442	77	1,782
Under/(Over)-provision in prior periods	2,466	(7,316)	2,481	(1,062)
	<u>2,511</u>	<u>(6,874)</u>	<u>2,558</u>	<u>720</u>
<b>Deferred tax</b>				
Origination and reversal of temporary differences	17	(1,628)	(664)	(4,898)
<b>Income tax expense/(credit)</b>	<u>2,528</u>	<u>(8,502)</u>	<u>1,894</u>	<u>(4,178)</u>

No provision for Hong Kong Profits Tax has been made in the financial statements of subsidiaries in Hong Kong as there were no estimated assessable profits for the nine months ended 31 December 2014 and 2013.

Under the Law of the People’s Republic of China on Enterprise Income Tax (“EIT Law”), in general, the applicable EIT rate of enterprises in the PRC 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 EIT 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. Other subsidiaries of the Company in the PRC are subject to EIT rate at 25% (2013: 25%) on their taxable income.

### 9. LOSS PER SHARE FOR LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic loss per share is calculated by dividing the loss for the period 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.

	Unaudited Three months ended 31 December		Unaudited Nine months ended 31 December	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loss attributable to owners of the Company	<u>(10,643)</u>	<u>(54,965)</u>	<u>(60,823)</u>	<u>(148,709)</u>
<b>Numbers of shares</b>				
Weighted average number of ordinary shares in issue during the period	<u>2,713,798</u>	<u>2,713,798</u>	<u>2,713,798</u>	<u>2,713,798</u>

Basic and diluted loss per share for the three months and nine months ended 31 December 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 per share amounts presented for the three months and nine months ended 31 December 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 per share amounts presented.

### 10. DIVIDEND

The Board does not recommend the payment of a dividend for the nine months ended 31 December 2014 (2013: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

Along with last financial year, the overall business performance of the Group for the nine months ended 31 December 2014 was still not satisfactory because of the shrinking demand, uncertainties over local policies and slowing economic growth in mainland China. The management has been making its best effort to overcome such hurdles by adoption of stringent cost control, closure of persistent non-performed business segment, product repositioning, liaison for business opportunities and seeking new capital. Meanwhile, the management is in negotiation with Cyberland for any possible exit of the CB 2015, which include but not limited to unconditional and non-recourse waiver, early partial redemption and exercising of conversion rights that attached to the bond to convert a part thereof into shares of the Company.

#### Tobacco agricultural operation

The tobacco agricultural operation has a significant setback of turnover of HK\$102.4 million (2013: HK\$437.2 million) for the period under review. The decrease was primarily due to the shrinkage of sales of tobacco flue-curing barns, uncertain market sentiment and other adverse and unexpected factors. It is also observed that the profit margin has been eroded by the rising production overheads despite the management has taken cautious approach for each transaction. The Group, nevertheless, did not go for turnover at the expenses of the profit margin which has been maintained at around 31.7% for the period under review. Despite management's efforts taken in cost control and having deployed more resources to enhance the sale of greenhouse and other transplanting machinery during the reporting period, this operation is still far from satisfaction.

#### Digital television operation

The performance of digital television operation has been significantly improved with revenue achieved up to HK\$6.7 million (2013: HK\$3.5 million), representing an increase of 94.3% as compared to same period last year. Such increase was mainly attributable to strong advertising income from the operation of the broadcasting channels in Hunan Province of mainland China. The management considered that the growth could be further uplifted by enhancement of product quality and diversity of programme despite peer competition and emerging substitutions in the internet.

#### Fertilizer and pesticide operation

There was no sale of fertilizer and pesticide for the period under review (2013: HK\$13.7 million) as a result of downsizing and repositioning of the Group. Management believe that biological fertilizers like BM series which are generally applied in soil transformation for tobacco cultivation still have market demand in mainland China. However, management is also aware that in order to secure a minimal return, the Company must set up its own production plant with a research and development team. Financially, it is not feasible to establish such production plant with capacity capable of mass production in the short run as it involves tremendous initial capital input. As a totality of considerations, the Group finally retreated from this operation by disposal of the business vehicle – Henan Baorong Biological Technology Company Limited to a non-controlling shareholder.

#### Other operation

The healthcare products operation was severely underperformed with insignificant sales of HK\$13,000 (2013: HK\$88,000) for the period up to 30 May 2014. The non-performance was mainly due to the significant shrinkage of the demand of cordyceps-related healthcare products, emerging substitutes, industry competition and surge in operating costs. This operation which conducted through Hong Kong New Success International Group Investment Company Limited and its two subsidiaries in mainland China was disposed to a third party during the period under review. The management considers that the disposal of such non-performing business could facilitate the resources utilization within the Group.

### FINANCIAL REVIEW

#### Turnover

For the nine months ended 31 December 2014, the Group's turnover was HK\$109.1 million (2013: HK\$454.5 million), representing a significant decrease of 76.0% compared with the same period in 2013. The decrease was mainly due to the sales shrinkage of tobacco flue-curing barns, unexpected factors and uncertain market conditions in major tobacco-growing areas in mainland China.

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

For the period under review, the Group's cost of sales and services was stood as HK\$73.5 million (2013: HK\$308.7 million) which mainly included costs of goods sold, sheet steel, direct wages and delivery costs, and the Group's gross profit was HK\$35.6 million (2013: HK\$145.8 million). As a result of stringent cost control, the Group's overall gross profit margin has been slightly improved by 0.6% to 32.7% (2013: 32.1%) as compared to same period last year. The management will keep close monitoring the sheet steel prices, logistic costs, production overheads and product mix in order to maintain the profit margin.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### FINANCIAL REVIEW *(continued)*

#### Distribution costs

For the period under review, the Group recorded total distribution costs of HK\$22.0 million (2013: HK\$91.3 million). The distribution costs mainly consisted of transportation, staff costs, travelling expenses and business soliciting expenditures. The decrease in distribution costs, which was in line with the drop in sales, was mainly attributable to the decrease in number of times of delivery turnaround and transportation costs as a result of less sales orders recorded during the reporting period. The management will continue to streamline the logistic flow in order to minimize distribution costs.

#### Administrative expenses

The Group has adopted austerity measures including lay-off of non-operating staff in order to trim down the administrative expenses and cope with the challenging business environment. As a result, the administrative expenses for the period under review have significantly reduced by 69.8% to HK\$28.0 million (2013: HK\$92.8 million).

#### Other losses

Other losses amounting to HK\$29.1 million (2013: HK\$104.3 million) for the nine months ended 31 December 2014 included gain on disposal of subsidiaries of HK\$11.1 million (2013: Nil), impairment loss on trade receivables of HK\$10.2 million (2013: HK\$54.7 million), impairment loss on other receivables of HK\$12.6 million (2013: Nil) and loss on the change in fair value of convertible bond of HK\$17.3 million (2013: HK\$36.9 million).

#### Finance costs

Interest expenses on bank and other loans for the nine months ended 31 December 2014 was HK\$23.1 million, representing an increase of 4.6% compared with same period last year of HK\$22.1 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 nine months ended 31 December 2014. In view of the heavy finance cost arose from the borrowings and tight liquidity issue, the Company has been in close negotiation with banks in mainland China for possible new financing arrangement, and the Company may also consider possible fund raising activities and seek potential business strategic partners in Hong Kong.

#### Loss attributable to owners of the Company

For the nine months ended 31 December 2014, the unaudited loss attributable to owners of the Company was HK\$60.8 million (2013: HK\$148.7 million), representing a decrease of 59.1% as compared to the same period last year. The loss attributable to owners of the Company was mainly due to the setback of turnover, loss on change in fair value of convertible bond and the impairment loss on trade and other receivables.

### 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 mainland China 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 is currently facing tight liquidity and has encountered a difficult business environment along with the slowing down in economy in mainland China under the reporting period. Both the turnover and gross profit of the Group have recorded a significant decline for the period under review. In response to these unfavourable market factors and to minimize business risk, the Company is on the one hand trying to enhance the conventional core business of manufacturing of flue-curing barn for tobacco, possible business remodeling and repositioning, and, on the other hand, the Company will consider seeking new source of funding and invitation of possible strategic business cooperation. The management will always stay alert of the development of business environment and closely monitor the financial position of the Group. Nevertheless, management remains cautiously optimistic towards the business of agriculture machinery industry in mainland China.

## OTHER INFORMATION

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

As at 31 December 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 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, 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.
- (b) Mr. Wong Man Hung Patrick resigned as an executive Director with effect from 8 August 2014.

Save as disclosed above, as at 31 December 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.

## OTHER INFORMATION *(continued)*

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

As at 31 December 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.

#### Long positions in the Shares and underlying Shares

Name of shareholders	Capacity	Number of Shares/ underlying Shares held	Percentage of shareholding
Mr. Lee Yuk Lun	Beneficial interest	219,298,244	8.08%
Cyberland (China) Limited	Beneficial interest	1,517,210,465 (notes a and c)	55.91%
Stepwise International Holdings Limited	Interest of a controlled corporation	1,517,210,465 (notes a, b and c)	55.91%

Notes:

- (a) Cyberland (China) Limited is legally and beneficially owned as to 54.63% by Stepwise International Holding Limited ("Stepwise").
- (b) Stepwise is legally and beneficially wholly owned by Mr. Shan Xiaochang ("Mr. Shan"). Mr. Shan resigned as an executive Director with effect from 2 November 2013.
- (c) 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 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. Details of specific categories and movement of the share options under the scheme during the nine months ended 31 December 2014 are presented as follows:

Category of participants	Date of grant	Exercise price per share HK\$	Validity period	At 01.04.2014	Number of share options			At 31.12.2014
					Granted during the period	Exercised during the period	Lapsed during the period	
Consultants	10.12.2010 (note a)	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)	–
Employees	10.12.2010 (note a)	0.163	03.10.2012 to 02.10.2014	5,000,000	–	–	(5,000,000)	–
Director (note b)	03.10.2012	0.163	03.10.2012 to 02.10.2014	7,000,000	–	–	(7,000,000)	–
Total				<u>172,000,000</u>	<u>–</u>	<u>–</u>	<u>(172,000,000)</u>	<u>–</u>

As at 31 December 2014, no share options were outstanding.

Notes:

- (a) 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.
- (b) The share options were held by Mr. Wong Man Hung Patrick who resigned as an executive Director with effect from 8 August 2014.

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

### **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 nine months ended 31 December 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**

In the opinion of the Board, the Company has complied with all the code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 to the GEM Listing Rules for the nine months ended 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2014. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the nine months ended 31 December 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 has reviewed the accounting principles and practices adopted by the Group, the unaudited quarterly results for the nine months ended 31 December 2014, and discussed the financial control, internal control and risk management systems.

By order of the Board  
**Code Agriculture (Holdings) Limited**  
**Jingquan Yingzi**  
*Chairman*

Hong Kong, 11 February 2015

*As at the date of this report, the executive Directors are Ms. Jingquan Yingzi (Chairman), Mr. Chin Wai Keung Richard, 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.*