



CODE AGRICULTURE (HOLDINGS) LIMITED
科地農業控股有限公司

(Incorporated in Bermuda with limited liability)

Stock Code : 8153



2016

First
Quarterly
Report
2016

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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 (the “GEM Listing Rules”) 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 of the Company (the "Board") hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 June 2016, together with the unaudited comparative figures for the corresponding period in 2015 as follows:

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 30 June 2016

	Notes	Three months ended 30 June	
		2016 HK\$'000	2015 HK\$'000
Revenue	3	10,639	11,558
Cost of sales and services		(2,472)	(8,416)
Gross profit		8,167	3,142
Other income	4	102	65
Distribution costs		(95)	(4,933)
Administrative expenses		(10,361)	(6,153)
Other losses	5	–	(25,023)
Finance costs	6	(8,006)	(7,281)
Loss before income tax	7	(10,193)	(40,183)
Income tax expense	8	(314)	(68)
Loss for the period		(10,507)	(40,251)
Loss attributable to:			
Owners of the Company		(9,973)	(40,133)
Non-controlling interests		(534)	(118)
		(10,507)	(40,251)
		HK\$	HK\$ (Restated)
Loss per share attributable to owners of the Company			
Basic and Diluted	9	(0.06)	(0.40)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 30 June 2016

	Three months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Loss for the period	(10,507)	(40,251)
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	6,766	469
Total comprehensive expense for the period	(3,741)	(39,782)
Total comprehensive expense attributable to:		
Owners of the Company	(3,300)	(39,664)
Non-controlling interests	(441)	(118)
	(3,741)	(39,782)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 30 June 2016

	Attributable to owners of the Company									
	Share capital	Share premium	Equity component of convertible bonds	Merger reserve	Statutory reserve	Exchange reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK'000	HK'000	HK'000	HK'000 (note (a))	HK'000 (note (b))	HK'000	HK'000	HK'000	HK'000	HK'000
At 1 April 2015	37,829	1,503,719	-	(197)	24,347	84,665	(1,764,255)	(113,892)	(5,993)	(119,885)
Loss for the period	-	-	-	-	-	-	(40,133)	(40,133)	(118)	(40,251)
Other comprehensive income										
- Exchange differences on translation of foreign operations	-	-	-	-	-	469	-	469	-	469
Total comprehensive expense for the period	-	-	-	-	-	469	(40,133)	(39,664)	(118)	(39,782)
Issue of shares	5,420	34,378	-	-	-	-	-	39,798	-	39,798
Share issue expenses	-	(1,197)	-	-	-	-	-	(1,197)	-	(1,197)
At 30 June 2015	43,249	1,536,900	-	(197)	24,347	85,134	(1,804,388)	(114,955)	(6,111)	(121,066)
At 1 April 2016	43	41,900	28,146	(197)	24,347	93,387	(459,448)	(271,822)	(6,458)	(278,280)
Loss for the period	-	-	-	-	-	-	(9,973)	(9,973)	(534)	(10,507)
Other comprehensive income										
- Exchange differences on translation of foreign operations	-	-	-	-	-	6,673	-	6,673	93	6,766
Total comprehensive expense for the period	-	-	-	-	-	6,673	(9,973)	(3,300)	(441)	(3,741)
Issue of convertible bonds (note (c))	-	-	30,221	-	-	-	-	30,221	-	30,221
Conversion of convertible bonds (note (d))	72	9,006	(1,948)	-	-	-	-	7,130	-	7,130
Shares issued in respect of bond interest payments (note (e))	3	297	-	-	-	-	-	300	-	300
At 30 June 2016	118	51,203	56,419	(197)	24,347	100,060	(469,421)	(237,471)	(6,899)	(244,370)

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 Company's subsidiaries established and operating in the PRC are required to appropriate 10% of their profit after income tax calculated under the accounting principles generally applicable to the PRC enterprises to the statutory reserve until the fund aggregates 50% of their respective registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum of 25% of capital after these usages.
- (c) On 28 June 2016, the Company issued the 6% convertible bonds in the aggregate principal amount of HK\$120,000,000 due on 28 June 2019 (the "CB 2019") with a conversion price of HK\$0.05 per share. The terms of CB 2019 are satisfied the "fixed for fixed" rule in HKAS 32. The proceeds of the CB 2019 were allocated into two components, debt and equity elements on initial recognition.
- (d) During the three months ended 30 June 2016, the bondholders of the 6% convertible bonds in the aggregate principal amount of HK\$130,000,000 due on 4 November 2018 (the "CB 2018") have converted the CB 2018 with the aggregate principal amount of HK\$9,000,000 at conversion price of HK\$0.05 per share into 180,000,000 ordinary shares of the Company.
- (e) During the three months ended 30 June 2016, the bondholders of the CB 2018 have requested to pay the outstanding interests of HK\$300,000 by way of the Company's shares. 5,997,000 ordinary shares of the Company were issued at conversion price of HK\$0.05 per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company is 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 HM11, Bermuda and its principal place of business is Rooms 2037-40, 20th 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 provision of digital television services in the PRC, money lending business in Hong Kong, provision of car beauty services in Hong Kong, and manufacture and sale of tobacco agricultural machinery in the PRC.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousands except when otherwise indicated. The condensed consolidated financial statements for the three months ended 30 June 2016 (the “First 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 12 August 2016.

2. BASIS OF PREPARATION

The First Quarterly Financial Statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules. The First 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 Standards 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 2016 (the “Annual Report 2016”).

The accounting policies and methods of computation applied in the preparation of the First Quarterly Financial Statements are consistent with those applied in preparing the Annual Report 2016 except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 April 2016. 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 First 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 First 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 First Quarterly Financial Statements are consistent with those used in the Annual Report 2016.

Going concern

The Group incurred unaudited loss for the three months ended 30 June 2016 of HK\$10.5 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.

As stated in the Annual Report 2016, the Directors have taken the following actions to mitigate the liquidity issues facing by the Group:

- (a) A director of the Company has confirmed that she will provide continuous financial support to the Company for a period of twelve months from the date of approval of the Company's financial statements for the year ended 31 March 2016 by the Directors;
- (b) Possible fund raising activities including, but not limited to, further placing, rights issues or open offer are to be attempted;
- (c) The Group is in negotiation with financial institutions for loan restructuring and extensions of existing borrowings upon due dates and applying for future credit facilities; and
- (d) The management plans to improve the Group's financial performance by taking steps to reduce discretionary expenses and administrative costs and exploring new business to enhance the source of income.

In light of the measures and arrangements as described above, the Directors consider the Group and the Company will have sufficient working capital to meet their financial obligations as they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared 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.

3. REVENUE (UNAUDITED)

	Three months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Digital television service income	7,648	1,725
Money lending income	2,285	–
Car beauty service income	611	–
Sale of tobacco agricultural machinery	95	9,833
	10,639	11,558

4. OTHER INCOME (UNAUDITED)

	Three months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Bank interest income	6	7
Interest income from held-to-maturity investment	62	–
Interest income from amount due from a related company	34	–
Sundry income	–	58
	102	65

5. OTHER LOSSES (UNAUDITED)

	Three months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Impairment of trade receivables	–	25,004
Impairment of other receivables	–	19
	–	25,023

6. FINANCE COSTS (UNAUDITED)

	Three months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Interest on bank loans wholly repayable within five years	2,924	5,801
Interest on other loans wholly repayable within five years	557	1,480
Interest on convertible bonds	4,525	–
	8,006	7,281

7. LOSS BEFORE INCOME TAX (UNAUDITED)

Loss before income tax is arrived at after charging:

	Three months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
(a) Employee benefit expenses (including directors' remuneration)		
– Salaries, wages and other benefits	3,345	3,213
– Retirement benefit scheme contributions	174	291
	3,519	3,504
(b) Other items		
Amortisation of prepaid land lease payments	66	70
Amortisation of other intangible assets	25	2
Depreciation of items of property, plant and equipment	1,235	1,209
Write-off of items of property, plant and equipment	28	–
Impairment of trade receivables	–	25,004
Impairment of other receivables	–	19
Minimum lease payments under operating leases in respect of land and buildings	1,242	1,147
Minimum lease payments under operating leases in respect of office equipment	14	14
Cost of inventories sold	714	8,170
Research and development costs	5	76

8. INCOME TAX EXPENSE (UNAUDITED)

	Three months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Current tax – Hong Kong Profits Tax		
– Provision for the period	376	–
Current tax – PRC Enterprises Income Tax (the “EIT”)		
– Provision for the period	–	–
– Under provision in prior periods	–	32
	–	32
Deferred tax		
– Origination and reversal of temporary differences	(62)	36
Income tax expense	314	68

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit.

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “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. (“Jiangsu Kedi”), 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% on their taxable income.

9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY (UNAUDITED)

- (a) Basic loss per share is calculated by dividing the loss attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Three months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Loss		
Loss attributable to owners of the Company	(9,973)	(40,133)
Number of shares	'000	'000 (Restated)
Weighted average number of ordinary shares in issue (note)	164,614	99,782

Note:

The weighted average number of shares for the purpose of calculating the basic loss per share has been retrospectively adjusted for the three months ended 30 June 2015 to reflect the impact of the two share consolidations of the Company which completed on 24 August 2015 and 15 October 2015 respectively.

- (b) No adjustment has been made to the basic earnings per share amounts presented for the three months ended 30 June 2016 and 2015 in respect of a dilution as the impact of the convertible bonds outstanding had an anti-dilutive effect.

10. DIVIDEND

The Board does not recommend the payment of a dividend for the three months ended 30 June 2016 (2015: Nil).

11. LITIGATION

For the detailed information of litigation cases, please refer to page 16 in the paragraph headed "Legal Proceedings" in this report. Based on the legal opinion of the PRC legal advisors, the Directors are of the view that no further provision for legal claim was required to be made for the three months end 30 June 2016 (2015: Nil).

12. EVENTS AFTER REPORTING PERIOD

- (a) On 28 July 2016, the bondholders of the CB 2019 have converted the CB 2019 with the principal amount of HK\$6,000,000 and the outstanding interest of HK\$23,000 at conversion price of HK\$0.05 per share into 120,453,698 ordinary shares of the Company.
- (b) On 9 August 2016, the bondholders of the CB 2018 have converted the CB 2018 with the principal amount of HK\$1,000,000 and the outstanding interest of HK\$45,000 at conversion price of HK\$0.05 per share into 20,897,534 ordinary shares of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the three months ended 30 June 2016 (the "Period"), the Group was principally engaged in provision of digital television services in the PRC, money lending business in Hong Kong, provision of car beauty services in Hong Kong, and manufacture and sale of tobacco agricultural machinery in the PRC.

Digital television operation

This operation is operated by Hunan Xiaoxiang Digital Television Broadcast Company Limited ("Hunan Digital TV"), an indirectly owned subsidiary of the Company. Hunan Digital TV is currently operating three broadcasting channels, namely Channel 92, 93 and 94 in Hunan Province. Revenue from this operation for the Period significantly increased by 343.4% to HK\$7.6 million (2015: HK\$1.7 million), accounted for 71.9% of the Group's revenue. The increase in revenue was mainly due to more advertising income generated from the broadcasting, since the Company has enlarged its capital injection in Hunan Digital TV to enhance the quality of TV programs. The culture, media and entertainment related business are fast growing along with the increase in the disposable personal income in the PRC, so the management believes the market is full of expansion capacity and the performance of the digital television broadcasting could be uplifted in the future. The Company is optimistic that this operation will have a sustainable growth in the future.

Money lending related operation

The Group has successfully applied for Money Lenders Licence on 8 March 2016 and the business of money lending has officially launched since March 2016. Revenue from this operation for the Period was HK\$2.3 million, accounted for 21.5% of the Group's revenue. The Company believes the business will continue to grow in the future.

Car beauty operation

The Group has launched the first car beauty workshop in Hong Kong on 30 December 2015 which targets on mid-to-high end private cars. In order to expand its market share, the Company has set up one more workshop at Kowloon Bay and it is going to commence business in August 2016.

Revenue from this operation for the Period was HK\$611,000, accounted for 5.7% of the Group's revenue. The Company has formulated strategic planning for this operation and believes this operation will provide steady revenue for the Group in the forthcoming financial periods.

Tobacco agricultural machinery operation

Revenue from this operation for the Period significantly decreased by 99.0% to HK\$95,000 (2015: HK\$9.8 million). Such decrease was primarily due to the shrinkage of sales and unavoidable fixed costs. Despite management's efforts on the cost control, the performance of this operation is still far from satisfactory. The Company will not obviate the possibility to dispose of this operation if opportunity arises.

Financial Review

Revenue

The Group's revenue for the Period was HK\$10.6 million (2015: HK\$11.6 million), representing a decrease of 8.0% as compared to the same period in 2015.

Cost of sales and services and gross profit

The Group recorded total cost of sales and services for the Period of HK\$2.5 million (2015: HK\$8.4 million). Overall gross profit for the Period has significantly increased by 159.9% to HK\$8.2 million (2015: HK\$3.1 million). The gross profit margin increased to 76.8% (2015: 27.2%) due to the fact that fixed direct costs were diluted and the money lending operation was requiring low direct costs and the reasons stated in the business review above.

Other income

The Group recorded other income of HK\$102,000 (2015: HK\$65,000) for the Period, majority of which are arising from the interest income from held-to-maturity investment and amount due from a related company.

Distribution costs

The Group recorded distribution costs of HK\$95,000 for the Period (2015: HK\$4.9 million), representing 0.9% (2015: 42.7%) of the total revenue. The decrease in distribution costs was mainly attributable to proportionate decrease of sales in tobacco agricultural machinery operation. Direct labour costs involved in distribution costs were HK\$13,000 (2015: HK\$1.3 million) which accounted for 13.7% (2015: 26.0%) of total distribution costs of the Period.

Administrative expenses

Administrative expenses for the Period increased by 68.4% to HK\$10.4 million (2015: HK\$6.1 million) mainly due to the legal fees for litigation as mentioned in page 16 of this report. The Group will continue to adopt the stringent cost controls in the future.

Finance costs

Interest expenses for the Period were HK\$8.0 million (2015: HK\$7.3 million). The amount included the interests on bank and other loans of HK\$3.5 million (2015: HK\$7.3 million) and the interests of approximately HK\$4.5 million from convertible bonds which were issued in November 2015 and June 2016 with the effective interest rates of 18.5% and 21.1% per annum respectively. The interests on bank and other loans reduced by 52.2% mainly due to the partial repayment of the loans. In the view of the heavy finance costs and the default risk arising from the bank borrowings in the PRC, the Company has been actively negotiating with the existing major bankers for debt restructuring or other arrangement.

Other losses

During the Period, no further impairment of trade receivables and other receivables was required (2015: HK\$25 million).

Loss for the period and loss attributable to owners of the Company

As a result of the above factors, loss for the Period decreased by 73.9% to HK\$10.5 million (2015: HK\$40.3 million). Loss attributable to owners of the Company for the Period was approximately HK\$9.8 million (2015: HK\$40.1 million) after share of loss with the non-controlling interests. Loss per share attributable to owners of the Company was HK\$0.06 (2015: HK\$0.4).

CAPITAL STRUCTURE

As at 30 June 2016, the number of issued ordinary shares of the Company was 294,120,177 shares (31 March 2015: 108,123,473 shares).

As at 30 June 2016, the Company may have to issue a total of 4,820,000,000 shares upon full conversion of the HK\$241 million principal amount of the convertible bonds.

FUND RAISING ACTIVITIES

Placing of convertible bonds under specific mandate

On 22 April 2016, the Company entered into the placing agreement with the placing agent, pursuant to which the placing agent agreed amongst other things to procure not less than six placees to subscribe for up to HK\$120 million of the convertible bonds on a best effort basis by one or more tranches of not less than HK\$10 million each. Further details of the placing were set out in the announcements of the Company dated 22 April 2016 and 3 June 2016 and the circular of the Company dated 18 May 2016. The Company has finally completed the placing of convertible bonds in the aggregate principal amount of HK\$120 million taken place on 28 June 2016. The net proceeds from the placing of convertible bonds were approximately HK\$112.8 million, out of which HK\$88.9 million will be used for settlement of borrowings and interests, and the remaining amount of HK\$23.9 million will be used for general working capital and/or investment opportunities as may be identified from time to time.

LEGAL PROCEEDINGS

(a) (2015) Xi Min Chu Zi No. 0005#

As disclosed in the Company's announcement dated 18 June 2015, there was a legal proceeding in the PRC (the "PRC Proceeding"), namely (2015) Xi Min Chu Zi No. 0005# ((2015) 錫民初字第0005號) whereby Jiangsu Kedi, an indirectly wholly owned subsidiary of the Company, together with Jiangsu Zhongsai Environment Technology Company Limited# (中賽環境科技有限公司), Shan Xiaochang# (單曉昌) and Shan Zhuojun# (單茁君), were named as co-defendants in their capacity of guarantors to the Alleged Loan (as defined in aforesaid announcement) owing by Jiangsu Yonglu Fertilizer Company Limited ("Jiangsu Yonglu")# (江蘇永祿肥料有限公司) to the plaintiff, Mei Jingsong# (梅勁松). The hearing of the PRC Proceeding was held on 4 August 2015. A judgment was subsequently handed down against Jiangsu Yonglu and the co-defendants. Jiangsu Yonglu was required to pay RMB44.6 million together with the interests incurred thereon to the plaintiff, and the other co-defendants were required to undertake the responsibilities of joint guarantee but were granted the right of recourse against Jiangsu Yonglu. The Company is in the course of seeking legal advice from its PRC legal advisor and will make further announcement(s) on any significant development.

Shan Xiaochang ("Mr. Shan") was the legal representative of Jiangsu Kedi at the date of signing the guarantee in question over the Alleged Loan during the material time. According to a declaration made by Mr. Shan dated 9 June 2015, he confirmed that the Board has never authorised him to enter into such guarantee on behalf of Jiangsu Kedi. In the opinion of the PRC legal advisor of the Company, the validity of the guarantee in question over the Alleged Loan is doubtful. However, based on the civil judgment dated 24 May 2016, the Directors made the full provision of HK\$55,002,000 for the year ended 31 March 2016.

(b) (2015) Xi Bin Shang Chu Zi No. 00179#

Jiangsu Kedi received a civil judgment, namely (2015) Xi Bin Shang Chu Zi No. 00179# ((2015) 錫濱商初字第00179號) whereby Jiangsu Kedi, together with Yi Xing Shen Li Chemical Company Limited# (宜興申利化工有限公司), Ma Jungan# (馬君乾), Jiang Yiqun# (蔣益群) and Pan Xiaojin# (潘曉琴), were named as co-defendants in their capacity of guarantors of the a loan amounted to RMB4.4 million owned by Shi Lixin# (史利信) to the plaintiff, Wuxi City Binhu District Taihu Rural Village Small Loan Company Limited# (無錫市濱湖區太湖農村小額貸款有限公司).

After a preliminary investigation, the Directors are of opinion that the allegation made by the plaintiff against Jiangsu Kedi is not justifiable. To the best knowledge and information available, the Group and Jiangsu Kedi have never authorised the provision of the alleged guarantee to the plaintiff over the loan. Nevertheless, the Group has established a committee and engaged a PRC legal advisor to follow up this litigation. The Company will make further announcement(s) on any significant development of this litigation when it considers necessary.

(c) (2015) Xi Bin Shang Chu Zi No. 00180#

Jiangsu Kedi received a civil judgment, namely (2015) Xi Bin Shang Chu Zi No. 00180# ((2015) 錫濱商初字第00180號) whereby Jiangsu Kedi, together with Yi Xing Shen Li Chemical Company Limited# (宜興申利化工有限公司), Jiang Yiqun# (蔣益群) and Pan Xiaojin# (潘曉琴), were named co-defendants in their capacity of guarantors of the a loan amounted to RMB5 million owned by Ma Jungan# (馬君乾) to the plaintiff, Wuxi City Binhu District Taihu Rural Village Small Loan Company Limited# (無錫市濱湖區太湖農村小額貸款有限公司).

After a preliminary investigation, the Directors are of opinion that the allegation made by the plaintiff against Jiangsu Kedi is not justifiable. To the best knowledge and information available, the Group and Jiangsu Kedi have never authorised the provision of the alleged guarantee to the plaintiff over the loan. Nevertheless, the Group has established a committee and engaged a PRC legal advisor to follow up this litigation. The Company will make further announcement(s) on any significant development of this litigation when it considers necessary.

(d) (2015) Xi Zhong Bao Zi No. 0062#

The Company received a civil judgment of (2015) Xi Zhong Bao Zi No. 0062# ((2015) 錫仲保字第0062號) (the “Judgment”) on 2 September 2015, which was related to a dispute (the “Dispute”) arising from the small and medium-sized enterprise placement bonds (the “SME Private Bonds”) of outstanding aggregate principal amount of RMB33.3 million. According to the Judgment, the applicants of the Dispute (the “Applicants”) had applied for arbitration in May 2015. The Applicants had demanded to freeze the sum of RMB41 million in the bank account of Jiangsu Kedi or other assets of equivalent amount of Jiangsu Kedi. Up to the date of this report, the Company has repaid the Applicants RMB15.6 million together with relevant accrued interest of the SME Private Bonds. For the remaining outstanding principal, the Company, through its legal advisor is actively in negotiating with the Applicants in the PRC. The Company will make further announcement(s) on any substantial progress towards the Dispute when it considers necessary. For details, please refer to the Company’s announcement dated 4 September 2015.

The English name in this report is for reference only. The official name is in Chinese.

PROSPECTS

Despite the slow economic growth in the PRC, the Company considers that there are more opportunities arising from the flourishing culture, media and entertainment industry in the PRC. One of our major investments, Hunan Digital TV, will strengthen its operation in the three broadcasting Channels 92, 93 and 94 in Hunan Province by enhancing the scope and quality of TV program, featured films and advertisement.

The Company considers that there is growth potential in car beauty business and money lending business in Hong Kong. The Company plans to expand its market share by opening more shops for car beauty business. Meanwhile, the Group will put more resources on the money lending business. In future, it is believed that these two operations will provide steady cash inflows for the Group.

Economic growth in the PRC was slowed down and coupled with the shrinking demand have severely hindered the sales of tobacco related agricultural machinery. The Company is very cautious and prudent in running the business of manufacture and sale of tobacco agricultural machinery. The Company will not rule out any possibility to reform on the whole tobacco agricultural machinery segment or to dispose of this segment if opportunity arises.

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 2016, the interests and short positions of the Directors and chief executives of the Company in the ordinary share of HK\$0.0004 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	Percentage of shareholding
Ms. Jingquan Yingzi ("Ms. Jingquan")	Interests held by controlled corporation and beneficial owner	27,859,017 (note)	9.47%

Note:

There are totally 26,728,517 Shares held by Cyberland (China) Limited ("Cyberland") which is legally and beneficially owned as to 30.37% by Rise Enterprises Limited ("Rise Enterprises") and 15% by Wealth Way Investment Limited respectively. Rise Enterprises is beneficially owned as to 62.96% by Eagle Bliss Limited which in turn is wholly owned by Ms. Jingquan, 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 (Chapter 571 of the Laws of Hong Kong), Ms. Jingquan is deemed to be interested in the Shares to be held by Cyberland.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Directors' and Chief Executives' interests and short positions in Shares, underlying Shares and debentures of the Company or any associated corporation" and "Share Option Scheme", at no time during the three months ended 30 June 2016 were 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 subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 30 June 2016, 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 held	Number of underlying Shares held	Percentage of issued share capital of the Company
Cyberland (China) Limited	Beneficial owner	26,728,517 (notes (a) and (b))	–	9.09%
Stepwise International Holdings Limited	Interest of a controlled corporation	26,728,517 (notes (a) and (b))	–	9.09%
Yiu Kwok Ming Tommy	Beneficial owner	41,420,272	460,000,000 (note (c))	170.48%
Lee Yuk Lun	Beneficial owner	41,420,272	360,000,000 (note (c))	136.48%
Chow Kam Wah	Beneficial owner	20,601,640	140,000,000 (note (c))	54.60%
Ip Po Ki	Beneficial owner	20,601,640	140,000,000 (note (c))	54.60%
Lam Kai Tai	Beneficial owner	15,400,958	180,000,000 (note (c))	66.44%
Lau Kevin	Beneficial owner	15,650,958	180,000,000 (note (c))	66.52%
Ng Kwok Wing	Beneficial owner	6,950,958	180,000,000 (note (c))	63.56%
Kitchell Osman Bin	Beneficial owner	–	180,000,000 (note (c))	61.20%
Wong Ying Seung Asiong	Beneficial owner	–	180,000,000 (note (c))	61.20%
Chan Chak Kai Kenneth	Beneficial owner	–	160,000,000 (note (c))	54.40%
Kwong Kai Sing Benny	Beneficial owner	–	160,000,000 (note (c))	54.40%
Lee Ying Ki	Beneficial owner	–	100,000,000 (note (c))	34.00%
Au Shuk Yee, Sue	Beneficial owner	–	400,000,000 (note (c))	136.00%
Ip Cheuk Ho	Beneficial owner	–	400,000,000 (note (c))	136.00%
Shimazaki Koji	Beneficial owner	–	400,000,000 (note (c))	136.00%
To Yuet Sing	Beneficial owner	–	400,000,000 (note (c))	136.00%
Tsang Kai Ming	Beneficial owner	–	400,000,000 (note (c))	136.00%
Alexia Jouliau Jouliau	Beneficial owner	–	200,000,000 (note (c))	68.00%
Au Yeung Kai Wah	Beneficial owner	–	200,000,000 (note (c))	68.00%

Notes:

- Cyberland is legally and beneficially owned as to 54.63% by Stepwise International Holding Limited.
- The interests refer to the same parcel of underlying Shares.
- These shares may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds issued by the Company.

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 and became effective on 2 February 2009 and shall remain in force for a period of 10 years from that date. The share option scheme mandate limit was refreshed to 10% of the issued Shares at the date of annual general meeting of the Company held on 14 September 2015.

As at 30 June 2016, the number of Shares available for issue under the scheme was 10,812,347 Shares, after the adjustment in respect of the share consolidation taken effect on 15 October 2015. As at the date of this report, no share option has been granted under the share option scheme of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Directors' and Chief Executives' interests and short positions in Shares, underlying Shares and debentures of the Company or any associated corporation" and "Share Option Scheme", at no time during the three months ended 30 June 2016 were 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 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 three months ended 30 June 2016, save and except for the following:

1. Code provision A.1.3 requires that notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given. Due to the practical reasons, 14 days' advanced notifications have not been given to all meetings of the Board. Reasons have been given in the notifications in respect of those meetings of the Board where it is not practical to give 14 days' advanced notification. The Board will use its best endeavor to give 14 days' advanced notifications of Board meeting to the extent practicable.

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 2016.

COMPETING INTEREST

During the three months ended 30 June 2016, none of the Directors or management shareholders of the Company (as defined in the GEM Listing Rules) had any interests in any 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 2016. 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 2016.

AUDIT COMMITTEE

The Audit Committee has its terms of reference revised on 8 January 2016. 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 the oversight of the financial reporting system, risk management and internal control system of the Group. The Audit Committee consists of three independent non-executive Directors, namely Mr. Lee Chi Hwa Joshua ("Mr. Lee"), Mr. Sousa Richard Alvaro and Mr. Zhao Zhizheng. Mr. Lee is the chairman of the Audit Committee. The Audit Committee has reviewed the unaudited first quarterly results for the three months ended 30 June 2016, 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, 12 August 2016

As at the date of this report, the executive Directors are Ms. Jingquan Yingzi (Chairman), Mr. Chin Wai Keung Richard, Mr. Wang Anyuan, Mr. Wang Rongqian and Mr. Hu Chao; 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.