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 2013

Three months ended
30 June 2013

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 the 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 (the "Board") of directors (the "Directors") of Code Agriculture (Holdings) Limited (the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 June 2013, together with comparative unaudited figures for the corresponding period in 2012, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

For the three months ended 30 June 2013

	Note	Three months ended 30 June **2013** **HK$'000**	2012 HK$'000 (Restated)
Turnover	4	**255,851**	460,901
Cost of sales and services		**(169,714)**	(307,700)
Gross profit		**86,137**	153,201
Other revenue	5	**3,482**	2,143
Distribution costs		**(29,495)**	(24,340)
Administrative expenses		**(31,024)**	(29,737)
Profit from operations		**29,100**	101,267
Other losses	6	**(12,670)**	(10,605)
Finance costs	7	**(6,941)**	(6,472)
Share of results of associates		**–**	(681)
Profit before income tax	8	**9,489**	83,509
Income tax expense	9	**(4,836)**	(15,388)
Profit for the period		**4,653**	68,121
Profit for the period attributable to:			
– Owners of the Company		**5,842**	68,632
– Non-controlling interests		**(1,189)**	(511)
		4,653	68,121
		HK cents	HK cents
Earnings per share			
– Basic and diluted	10	**0.22**	2.53
Other comprehensive income for the period			
Exchange differences on translating foreign operations		**–**	52
Total comprehensive income for the period		**4,653**	68,173
Total comprehensive income for the period attributable to:			
– Owners of the Company		**5,842**	68,684
– Non-controlling interests		**(1,189)**	(511)
		4,653	68,173

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the three months ended 30 June 2013

	Attributable to owners of the Company										
	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$'000	**Convertible bond reserve** HK$'000	**Sub-total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 April 2012, as previously reported	27,138	1,056,184	(903,138)	(197)	33,014	9,499	36,433	427,825	686,758	(497)	686,261
Correction of prior periods' errors with respect to:											
Initial recognition and subsequent measurements on assets acquired and liabilities assumed in a business combination completed in 2010 (note 3(a))	–	–	(243,710)	–	(16,097)	–	44,984	(427,825)	(642,648)	–	(642,648)
Timing of recognising share option expenses (note 3(b))	–	–	1,445	–	–	(1,445)	–	–	–	–	–
At 1 April 2012, as restated	27,138	1,056,184	(1,145,403)	(197)	16,917	8,054	81,417	–	44,110	(497)	43,613
Profit for the period (as restated)	–	–	68,632	–	–	–	–	–	68,632	(511)	68,121
Other comprehensive income for the period	–	–	–	–	–	–	52	–	52	–	52
Total comprehensive income for the period	–	–	68,632	–	–	–	52	–	68,684	(511)	68,173
Share option scheme											
–Value of services	–	–	–	–	–	397	–	–	397	–	397
At 30 June 2012, as restated	27,138	1,056,184	(1,076,771)	(197)	16,917	8,451	81,469	–	113,191	(1,008)	112,183
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	**27,138**	**1,056,184**	**(1,395,518)**	**(197)**	**24,347**	**17,899**	**80,720**	**–**	**(189,427)**	**601**	**(188,826)**

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

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 2013 are unaudited but have been reviewed by the audit committee of the Company and approved for issue by the Board on 18 November 2013.

2. BASIS OF PREPARATION

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

The accounting policies used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the consolidated financial statements for the year ended 31 March 2013, except for the adoption of new or revised standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 April 2013. 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.

These 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 unaudited condensed consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

3. RESTATEMENTS DUE TO CORRECTION OF PRIOR PERIODS' ERRORS

In preparing the Group's consolidated financial statements for the year ended 31 March 2013, it had come to the attention of the Directors of the Company that the consolidated financial statements of the Group for the year ended 31 March 2012, 2011 and 2010 contained errors, among other things, the errors so identified had all been restated in corresponding years.

A detailed description of the nature of prior periods' error that identified for the three months ended 30 June 2012 is set out in notes 3(a) to 3(c) below, and the relevant errors and amounts have been restated accordingly. The correction for each of the line items in the unaudited condensed consolidated statement of comprehensive income is presented in the tables in note 3(d) below.

(a) Initial recognition and subsequent measurements of assets acquired and liabilities assumed in a business combination completed in 2010

On 30 November 2009, the Company entered into an agreement with Cyberland (China) Limited ("Cyberland") to acquire the entire equity interest in Kang Yuan Universal Investment Limited and its subsidiaries (collectively referred to as "Kang Yuan Group") at a consideration of HK$1,398,000,000, comprising a cash consideration of HK$300,000,000 and a convertible bond issued by the Company with a face value of HK$1,098,000,000 (the "Acquisition"). The Acquisition was completed on 1 February 2010.

In the preparation of the Group's consolidated financial statements for the year ended 31 March 2013, the management has come to aware that certain errors relating to the applicable accounting standards, including that: (1) the previous-mentioned business combination were not accounted for in accordance with the HKFRS 3 – Business Combination; (2) the subsequent measurement of net identifiable assets acquired in the Acquisition did not fully comply with the HKAS 36 – Impairment of Assets; and (3) the initial and subsequent measurement of the convertible bond did not fully comply with HKAS 32 – Financial Instruments: Presentation and HKAS 39 – Financial Instruments: Recognition and Measurement.

In this regard, the management had appointed an independent valuer to remeasure the valuation of purchase price allocation for the Acquisition and the valuation of the convertible bond. A summary of the effects of the errors is set out below:

(i) Identification of intangible assets arising from the Acquisition

In the previous valuation, there was only one intangible asset – "technologies" was identified on the Acquisition. The following intangible assets in addition to the previously reported "technologies" were identified after having re-performed valuation:

- tradename (with indefinite useful lives);
- patents and license rights (with indefinite useful lives);
- non-competition agreements;
- customer relationships; and
- distribution network.

Adjustments and restatements had been made to recognise these additional intangible assets.

(ii) ***Valuation of property, plant and equipment***

The fair value of the property, plant and equipment as at the Acquisition date was re-measured and properly adjusted and, while their carrying amounts for each subsequent reporting period were also re-measured.

(iii) ***Convertible bond issued for the Acquisition***

The convertible bond was issued as part of the consideration for the Acquisition. Previously, the convertible bond was regarded to have complied the "fixed for fixed" criteria of the relevant accounting standards. And this financial instrument was treated as to comprise of a liability component and an equity component. However, it was subsequently noted that there was an embedded call option which was inappropriately included in the equity component. After revisiting the terms and conditions of the convertible bond, the "fixed for fixed" criteria was determined to be violated and so, the entire convertible bond was designated as a financial liability through profit or loss on previous initial recognition. Appropriate adjustments had been made for the necessary rectification.

(iv) ***Deferred tax***

In the reporting year ended 31 March 2010, no deferred tax had been recognised for the temporary differences arising from the Acquisition. In addition, a tax rate of 16.5% was inappropriately used for the deferred tax calculation in subsequent reporting periods. The Directors had revisited the deferred tax calculation and used the enacted tax rate applicable to the acquired PRC subsidiaries for each relevant accounting periods. Appropriate adjustments had been made accordingly.

(v) ***Capital reserve***

The capital reserve of the acquired PRC subsidiaries was previously inappropriately included in identifiable net assets for goodwill calculation at the Acquisition date. Necessary adjustment and restatement had been made appropriately to report the capital reserve.

(vi) ***Goodwill***

Having taken into consideration of above adjustments to the identifiable net assets and the issued convertible bond at the Acquisition date, goodwill was therefore re-measured and adjusted accordingly.

(vii) ***Impairment of goodwill and other intangible assets acquired in the Acquisition***

For the purpose of impairment testing, goodwill arising from the Acquisition should be allocated to each of the relevant cash generating unit ("CGUs") that are expected to benefit from the synergy of the Acquisition.

In the previous valuation, there was only one single CGU – "Tobacco agriculture operation" identified. After the re-performance of the valuation for the business combination in 2010, two appropriate CGUs were identified by the management, namely "Tobacco agriculture operation" and "Fertilizer and pesticide operation". Consequently, the re-measured goodwill arising from the Acquisition was properly allocated to the two identifiable CGUs.

Furthermore, subsequent impairment testing of the re-measured goodwill and all other intangible assets was re-performed and the resultant impairment losses were appropriately recognised. When the goodwill of the "Tobacco agriculture operation" was fully impaired at 31 March 2011, the remaining impairment losses were allocated to the other assets of that CGU on a pro-rata basis of carrying amount.

(viii) ***Assets held for sale***

As indicated in the consolidated financial statements for the year ended 31 March 2011, the Group had reclassified certain land use right and property, plant and equipment relating to the manufacturing of fertilizers as assets held for sale for subsequent disposal.

Assets held for sale at each relevant accounting period was properly reviewed and adjusted accordingly. Furthermore, a reassessment of the fair value less cost to sell of the assets held for sale was conducted on subsequent disposal.

(b) Timing of recognition of share option expenses

The Company had granted share options to certain employees, director, suppliers of goods or services and consultants for the year ended 31 March 2011. These options have a vesting period over 1 year. However, the entire fair value of these options was inappropriately recognised and expensed in the consolidated statement of comprehensive income for the year ended 31 March 2011.

However, in accordance with HKFRS 2 – Share-based Payment, expenses of this nature should be recognised over the vesting period of each share option. As a result, the Share-based Payment expense included in administrative expenses was adjusted for the three months ended 30 June 2012. The related share option reserve of the Company and the Group have been adjusted as at 30 June 2012.

(c) Reclassification of cost of sales and services and distribution costs

In the reporting period, certain line items in the unaudited condensed consolidated statement of comprehensive income have been reclassified to better reflect the relevance of financial information relating to the Group's activities. Prior Periods' figures have also been re-presented to reflect the new presentation format. The resultant reclassification has had no net effect on the results of the Group for the three months ended 30 June 2012.

(d) Summary of effects of restatements due to correction of prior periods' errors

Effect of error corrections on the Group's unaudited condensed consolidated statement of comprehensive income for the three months ended 30 June 2012

	As previously reported	Initial recognition and subsequent measurements of assets acquired and liabilities assumed in a business combination	Timing of recognition of share option expenses	Reclassification of cost of sales and services and distribution costs	As restated
		note 3(a)	note 3(b)	note 3(c)	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	460,901	–	–	–	460,901
Cost of sales and services	(321,966)	–	–	14,266	(307,700)
Gross profit	138,935	–	–	14,266	153,201
Other revenue	2,143	–	–	–	2,143
Distribution costs	(10,074)	–	–	(14,266)	(24,340)
Administrative expenses	(19,543)	(9,797)	(397)	–	(29,737)
Profit from operations	111,461	(9,797)	(397)	–	101,267
Other gains/(losses)	65,664	(76,269)	–	–	(10,605)
Finance costs	(9,150)	2,678	–	–	(6,472)
Share of results of associates	(681)	–	–	–	(681)
Profit before income tax	167,294	(83,388)	(397)	–	83,509
Income tax expense	(14,025)	(1,363)	–	–	(15,388)
Profit for the period	153,269	(84,751)	(397)	–	68,121
Profit for the period attributable to:					
Owners of the Company	153,780	(84,751)	(397)	–	68,632
Non-controlling interests	(511)	–	–	–	(511)
	153,269	(84,751)	(397)	–	68,121
	HK cents				HK cents
Earnings per share					
– Basic and diluted	5.67				2.53
Other comprehensive income for the period					
Exchange differences on translating foreign operations	887	(835)	–	–	52
	887	(835)	–	–	52
Total comprehensive income for the period	154,156	(85,586)	(397)	–	68,173
Total comprehensive income for the period attributable to:					
Owners of the Company	154,667	(85,586)	(397)	–	68,684
Non-controlling interests	(511)	–	–	–	(511)
	154,156	(85,586)	(397)	–	68,173

4. **TURNOVER – UNAUDITED**

	Three months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Sale of agricultural machinery and provision of construction services	**252,784**	445,169
Sale of fertilizer and pesticide	**1,800**	14,385
Provision of digital television services	**1,241**	1,262
Sale of cordyceps-related and other healthcare products	**26**	85
	255,851	460,901

5. **OTHER REVENUE – UNAUDITED**

	Three months ended 30 June	
	2013	2012
	HK$'000	HK$'000
Interest income	**1,315**	2,143
Waiver of interest expense on convertible bond	**2,125**	–
Sundry income	**42**	–
	3,482	2,143

6. **OTHER LOSSES – UNAUDITED**

	Three months ended 30 June	
	2013	2012
	HK$'000	HK$'000
		(Restated)
Loss on redemption of convertible bond	**12,670**	44,570
Gain on disposal of assets held for sales	**–**	(35,469)
Loss on disposal of associates	**–**	1,504
	12,670	10,605

7. **FINANCE COSTS – UNAUDITED**

	Three months ended 30 June	
	2013	2012
	HK$'000	HK$'000
		(Restated)
Interest on bank loans wholly repayable within five years	**3,602**	4,947
Interest on other loans	**2,188**	1,525
Interest on small and medium-sized enterprise Private Placement Bonds	**1,151**	–
	6,941	6,472

8. **PROFIT BEFORE INCOME TAX – UNAUDITED**

	Three months ended 30 June	
	2013	2012
	HK$'000	HK$'000
		(Restated)
(a) Staff costs		
Contributions to defined contribution retirement plans	**574**	498
Equity-settled share-based payment expenses	**375**	397
Salaries, wages and other benefits	**7,549**	8,090
	8,498	8,985
(b) Other items		
Amortisation		
– prepaid land lease payments	**68**	68
– other intangible assets	**15,697**	16,504
Cost of inventories recognised as expenses	**169,124**	304,645
Depreciation on property, plant and equipment	**1,836**	2,037
Operating lease charges: minimum lease payments		
– hire of building	**2,064**	1,187
– hire of office equipment	**17**	17
Research and development costs	**1,629**	1,555

9. INCOME TAX EXPENSE – UNAUDITED

	Three months ended 30 June	
	2013	2012
	HK$'000	HK$'000
		(Restated)
Current tax – Hong Kong Profits Tax		
Provision for the period	**–**	–
Current tax – PRC Enterprise Income Tax		
Provision for the period	**6,471**	15,111
Deferred tax		
Origination and reversal of temporary difference	**(1,635)**	277
	4,836	15,388

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 2013 and 2012.

In accordance with the relevant tax laws and regulations in the PRC, the PRC subsidiaries are subject to an enterprise income tax rate of 25% (2012: 25%) on its taxable income. However, one of the PRC subsidiaries is entitled to exemption of enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a three-year 50% tax reduction. Accordingly, the PRC subsidiary enjoyed 50% tax deduction. After the expiry of the above tax concession on 31 December 2012, that subsidiary had been designated as a High-Tech Enterprise and its PRC enterprise income tax rate was subjected to 15% in accordance with the relevant PRC tax laws and regulations. The remaining subsidiaries of the Company in the PRC are subject to PRC enterprise income tax at 25% (2012: 25%) on their taxable income.

10. EARNINGS PER SHARE – UNAUDITED

Basic earnings per share is calculated by dividing the 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	
	2013	2012
	HK$'000	HK$'000
Profit attributable to the owners of the Company	**5,842**	68,632
	2012	2011
	'000	'000
Number of shares		
Weighted average number of shares for the purpose of basis earnings per share	**2,713,798**	2,713,798

Basic and diluted earnings per share for the three months ended 30 June 2013 and 2012 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 earnings per share amounts presented for the three months ended 30 June 2013 and 2012 in respect of a dilution as the impact of the convertible bond outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

11. INTERIM DIVIDEND – UNAUDITED

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2013 (2012: Nil).

12. COMPARATIVE FIGURES

Certain comparative figures have been changed in order to confirm with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Tobacco agricultural operation

The tobacco agricultural operation has a significant setback of revenue of HK$252.8 million (30 September 2012: HK$445.2 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. In light of this, management will take measures to expand the product scope and derive more resources to enhance the sale of greenhouse and other transplanting machinery. The flue-curing machinery products "KH" series remain as the well-recognised product in the industry.

Fertilizer and pesticide operation

The sale of fertilizer and pesticide has only recorded HK$1.8 million (30 September 2012: HK$14.4 million) revenue which represented a material decrease as compared to same period last year. The major products of this operation are flumetralin and biological fertilizers which are generally applied in soil transformation for tobacco cultivation and the growing of organic tobacco. As the raw materials of fertilizers and other operating cost are kept rising, the management are of the view that it is not optimistic to expect any exponential surge in revenue in the remaining period of the financial year.

Digital television operation

The digital television operation has recorded a revenue of HK$1.2 million (30 September 2012: HK$1.3 million) representing a slightly decrease of 2.0% as compared to same period last year. The performance of this operation has become steady along with the partial unlocked scientific channel in Hunan Province, PRC. However, as to the fact that digital television broadcasting industry is rather policy-driven and full of uncertainties, there will be unlikely significant increase in sales in the second half of the financial year. Nevertheless, the Company will continue to explore business opportunities within the industry and improve its program quality and operation efficiency.

Other operation

The healthcare products operation was severely underperformed with insignificant sales of HK$26,000 for the period under review (30 September 2012: HK$85,000). The loss was mainly due to significant shrinkage in the demand of cordyceps-related healthcare products, immense pressure from peer competition and rising operating costs. The Group is now considering possible disposal of this operation if opportunity arises.

FINANCIAL REVIEW

Turnover

For the period under review, the Group's turnover was HK$255.8 million, representing a significant decrease of 44.5% (30 September 2012: HK$460.9 million) as compared to the same period last year. Such decrease was mainly due to the shrinkage of sales of tobacco flue-curing barns and uncertain market sentiment in major tobacco-growing areas in the PRC.

Cost of sales and services and gross profit

For the three months ended 30 June 2013, the Group's cost of sales and services mainly included costs of goods sold, sheet steel, direct wages and delivery costs, which was decreased to HK$169.7 million (30 September 2012: HK$307.7 million) and the Group's gross profit was reduced to HK$86.1million (30 September 2012: HK$153.2 million). The Group's overall gross profit margin has slightly improved by 0.5% to 33.7% (30 September 2012: 33.2%) 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

For the period under review, the Group recorded total distribution costs of HK$29.5 million (30 September 2012: HK$24.3 million). The distribution costs mainly consisted of transportation, labour costs, travelling expenses and business soliciting expenditures. The significant increase in distribution costs was mainly attributable to the surge in number of times of delivery turnaround and transportation as a result of more sales orders with less quantity involved that need to be fulfilled.

Administrative expenses for the three months ended 30 June 2013 have slightly increased by 4.3% to HK$31.0 (30 September 2012: HK$29.7 million). The Group has adopted austerity measures to trim down the Group's overall administrative expenses to cope with the challenging business environment ahead.

Other losses

The convertible bond with certificate number 3 of aggregate principal amount of HK$50,000,000 issued by the Company was redeemed and a loss of HK$12.7 million was recognised during the period under review. As at 30 June 2013, the Company's convertible bond of the principal amount of HK$852,400,500 remains outstanding with maturity date in year 2015.

Finance costs

The finance costs were slightly increased by 6.2% to HK$6.9 million (30 September 2012: HK$6.5 million).

Profit attributable to owners of the Company

For the three months ended 30 June 2013, the profit attributable to owners of the Company was HK$5.8 million (30 September 2012: HK$68.6 million), representing a decrease of 91.5% as compared to the same period last year. The decrease in profit 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.

PRIVATE PLACEMENT BONDS

Jiangsu Kedi Modern Agriculture Company Limited, an indirectly wholly owned subsidiary of the Company, pursuant to the applicable regulations and rules in the PRC, has successfully issued two-year small and medium-sized enterprise private placement bonds with aggregate principal amount of RMB60,000,000 (equivalent to HK$74,074,000) carrying terms of 24 months tenure, unlisted, unsecured and bearing interest at the rate of 9.0% per annum. The bonds were registered in the Shenzhen Stock Exchange and the subscribers of which were financial institutions designated and approved by the Shenzhen Stock Exchange.

LEGAL PROCEEDINGS

The litigation in relation to the winding-up petition filed by Zhang Weibing (the "Petitioner") against the Company has been dismissed for the period under review. For another High Court Action No. HCA 776/2013 in relation to the Writ of Summon issued by Cyberland (China) limited ("Cyberland") claiming against the Petitioner and the Company, the Company has subsequently reached a settlement on 24 September 2013 with Cyberland for discontinuation of the Action with no order as to costs.

SUSPENSION OF SHARE TRADING

As published in the announcement on 24 June 2013, trading in the shares of the Company has been suspended from 9:09 a.m. on 24 June 2013 pending the publication of financial results for the period under review and for the six months ended 30 September 2013. The Shares of the Company will continue to be suspended until further notice.

PROSPECTS

As a leading player in the PRC's tobacco agricultural industry, one of the Group's business directions is to assist the continuous modernisation of the industry and to implement policies in the best interests of our shareholders, business partners, employees, and tobacco farmers in the PRC and other stakeholders. With a mature technical competence, products of quality and effective operational management team, the Group has established a sustainable development foundation, and a reputable branding with high quality within the tobacco agricultural industry in the PRC. However, in view of the mounting the operating cost and uncertainties over the market sentiment, the Group will take austerity measures to enhance the Group overall competitiveness in the tobacco industry.

With an aim to maximise shareholders' long term return, the Group will take a prudent and cautious approach to capture and evaluate possible business opportunities, and will continue to reinforce its leading position in the intensive fluecuring machinery, by streamlining its business model, aspiring further advancement in its product quality and innovation, and enhancing the Group's resources utilisation in an cost-effective approach.

In view of the current downtrend of the business environment, the Group is cautiously optimistic in its future performance as to the fact that a sustainable modernisation in the PRC's tobacco industry will drive a consolidation amid the industry participants and create additional business opportunities for the industry leading players.

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 2013, 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 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	2,027,546,744 (note (b))	74.71%
Mr. Wong Man Hung Patrick	Beneficial owner	32,000,000	1.18%
Mr. Shan Xiaochang	Interests held by controlled corporation and beneficial owner	1,984,776,744 (note (a) and (b))	73.14%
Mr. Feng Xiaoping (note (c))	Interests held by controlled corporation	31,618,750	1.17%

Notes:

(a) 1,982,326,744 underlying Shares are held by Cyberland (China) Limited, which is legally and beneficially owned as to 54.63% by Stepwise International Holdings Limited ("Stepwise"). Stepwise is legally and beneficially wholly owned by Mr. Shan Xiaochang ("Mr. Shan") an executive Director. Mr. Shan has resigned as an executive Director of the Company with effect from 2 November 2013.

(b) The interests refer to the same parcel of underlying Shares.

(c) 31,618,750 Shares are held by Sino Unicorn Technology Limited, a company in which Mr. Feng Xiaoping ("Mr. Feng") has an indirect interest of 51% therein. Mr. Feng retired as an executive Director of the Company on 28 September 2012.

Save as disclosed above, as at 30 June 2013, 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 2013, 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	1,982,326,744 (note (a) and (d))	73.05
Stepwise International Holdings Limited	Interest of a controlled corporation	1,982,326,744 (note (a), (b) and (d))	73.05
Ms. Wu Shuhua	Interest of child under 18 or spouse	1,984,776,744 (notes (c) and (d))	73.14

Notes:

(a) Cyberland (China) Limited is legally and beneficially owned as to 54.63% by Stepwise.

(b) 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.

(c) 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.

(d) 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 2013 is presented as follows:–

				Number of share options				
Category of participants	Date of grant	Exercise price per share HK$	Validity period	As at 01.04.2013	Granted during the period	Exercised during the period	Lapsed during the period	As at 30.6.2013
Consultants	10.12.2010 (note)	0.163	03.10.2012 to 02.10.2014	50,000,000	–	–	–	50,000,000
	03.10.2012	0.163	03.10.2012 to 02.10.2014	135,000,000	–	–	–	135,000,000
Employees	10.12.2010 (note)	0.163	03.10.2012 to 02.10.2014	10,000,000	–	–	–	10,000,000
Director	03.10.2012	0.163	03.10.2012 to 02.10.2014	7,000,000	–	–	–	7,000,000
				202,000,000	–	–	–	202,000,000

Note:

On 3 October 2012, the Company had resolved to modify the share options for a total of 60,000,000 previously granted to certain consultants and full-time employees of the Group.

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 2013 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 Company's corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 of the GEM Listing Rules. The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the three months ended 30 June 2013.

INTERNAL CONTROL

The Board is responsible for maintaining and reviewing the effectiveness of the internal control system of the Group. It has carried out an annual review of the existing implemented system and procedures, including control measures of financial, operational and legal compliance and risk management functions of the Group.

Subsequent to the period under review, the Board has engaged an independent accounting firm to review the effectiveness of the Group's internal control procedures and financial reporting system in order to further enhance the corporate governance. Concurrently, the Board has also commenced the process of setting a whistle blowing system within the Group and trigged other human resources policies including management by objective, training programs and staff continuous professional development.

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 2013.

COMPETING BUSINESS

None of the Directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business that competed or may compete with the business of the Group.

AUDIT COMMITTEE

The Company had established an audit committee on 20 March 2001 with written terms of reference in compliance with the requirements as set out in the GEM Listing Rules. The terms of reference was revised on 29 March 2012 in order to comply with the revised provision of the Code. The primary duties of the audit committee are to review the Group's annual report and accounts, half-year report and quarterly reports and provide advice and comments thereon to the Board and to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee of the Company has reviewed and discussed the first quarterly results for the three month ended 30 June 2013, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its listed securities during the three months ended 30 June 2013. 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 2013.

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

Hong Kong, 18 November 2013

As of the date of this report, the executive Directors are Ms. Jingquan Yingzi (Chairman), Mr. Wong Man Hung Patrick, 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.