



**中國農業生態有限公司**  
**China Eco-Farming Limited**

(Continued into Bermuda with limited liability)  
(Stock Code: 8166)

First Quarterly Report  
**2011**



## **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, make 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 of China Eco-Farming Limited (the “Company”) (the “Director(s)”) collectively and individually accept full responsibility, includes particulars 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 enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

*This report will remain on the Company’s website at <http://www.aplushk.com/clients/8166chinaeco-farming/index.html> and “the Latest Company Announcements” page of the GEM website for at least 7 days from the date of its posting.*

## HIGHLIGHTS

### Financial Highlights

The Company and its subsidiaries (collectively, the "Group") recorded an unaudited revenue of approximately HK\$5,834,000 for the three months ended 31 March 2011, representing an increase of approximately 284% as compared with approximately HK\$1,520,000 for the corresponding period in 2010.

The unaudited loss for the period attributable to owners of the Company for the three months ended 31 March 2011 amounted to approximately HK\$3,202,000, representing a decrease of approximately 35% as compared with HK\$4,901,000 for the corresponding period in 2010.

The board of directors of the Company (the "Board") do not recommend any payment of interim dividend for the three months ended 31 March 2011.

**UNAUDITED CONDENSED CONSOLIDATED QUARTERLY RESULTS**

The Board announce the unaudited condensed consolidated results of the Group for the three months ended 31 March 2011 together with the comparative figures for the corresponding period in 2010.

**UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(Expressed in Hong Kong dollars)

	Notes	For the three months ended 31 March	
		2011 \$'000	2010 \$'000
Revenue	3	<b>5,834</b>	1,520
Cost of sales		<b>(3,587)</b>	(1,476)
Gross profit		<b>2,247</b>	44
Other revenue	3	<b>10</b>	300
Administrative expenses		<b>(5,080)</b>	(4,959)
Finance costs	4	<b>(379)</b>	(286)
Loss before taxation		<b>(3,202)</b>	(4,901)
Taxation	5	<b>-</b>	-
Loss for the period and total comprehensive expense for the period attributable to owners of the Company		<b>(3,202)</b>	(4,901)
Loss per share			
Basic and diluted ( <i>HK cent</i> )	7	<b>(0.13)</b>	(0.24)

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the three months ended 31 March 2011 (Expressed in Hong Kong dollars)*

	<b>Attributable to owners of the Company</b>					
	<b>Equity component of convertible preference shares</b>					
	<b>Share capital</b>	<b>Share premium</b>	<b>Special reserve</b>	<b>Accumulated losses</b>	<b>Total</b>	
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<b>At 1 January 2010</b>	9,126	8,156	4,121	6,026	(31,444)	(4,015)
Loss for the period, representing total comprehensive expense for the period	–	–	–	–	(4,901)	(4,901)
Conversion of convertible preference shares	15,000	3,106	(3,776)	–	–	14,330
<b>At 31 March 2010</b>	<b>24,126</b>	<b>11,262</b>	<b>345</b>	<b>6,026</b>	<b>(36,345)</b>	<b>5,414</b>
<b>At 1 January 2011</b>	24,246	11,066	538	6,026	(46,645)	(4,769)
Loss for the period, representing total comprehensive expense for the period	–	–	–	–	(3,202)	(3,202)
<b>At 31 March 2011</b>	<b>24,246</b>	<b>11,066</b>	<b>538</b>	<b>6,026</b>	<b>(49,847)</b>	<b>(7,971)</b>

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organisation and operation

China Eco-Farming Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 30 November 2000.

The shares of the Company were listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 5 February 2002. The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The head office and principal place of business of the Company is Room 1301, 13/F, the Centre Mark, 287-299 Queen's Road Central, Hong Kong. The directors of the Company do not consider any company to be the ultimate holding company or parent company of the Company.

During the year ended 31 December 2007, the Company re-domiciled from the Cayman Islands into Bermuda by way of de-registration in the Cayman Islands and continuation as an exempted company under the laws of Bermuda. The change of domicile was approved by the shareholders of the Company on 15 October 2007 and the Company was continued into Bermuda with limited liability with effect from 29 October 2007.

The Group is principally engaged in the provision of one-stop value chain services to telecommunications, information technology and advanced manufacturing industries, health care business and real property investment.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Group.

### 2. Principal accounting policies and basis of preparation

The unaudited condensed quarterly financial information has been prepared in accordance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed financial results have been prepared under the historical cost basis except for investment properties and financial instruments that are measured at fair values.

The principal accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial results for the three months ended 31 March 2011 are consistent with those adopted in preparing the audited consolidated financial statements of the Group for the year ended 31 December 2010 except for the following amendments and interpretation ("New HKFRSs") issued by HKICPA which are or have become effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 except for the amendments to HKFRS3 (Revised in 2008), HKFRS7, HKAS1 and HKAS 28 <sup>1</sup>
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>5</sup>
HKFRS 7 (Amendments)	Disclosures-Transfers of Financial Assets <sup>5</sup>
HKFRS 9	Financial Instruments <sup>7</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>6</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
HKAS 32 (Amendments)	Classification of Rights Issues <sup>2</sup>
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2011.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2012.

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013.

The adoption of the New HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group's unaudited condensed consolidated financial statements.



**3. Revenue and other revenue**

An analysis of the Group's revenue and other revenue for the period is as follows:

	<b>For the three months ended 31 March</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Revenue:		
One-stop value chain services	<b>1,200</b>	1,520
Health care services	<b>4,560</b>	–
Rental income ( <i>note</i> )	<b>74</b>	–
	<b>5,834</b>	1,520
Other revenue	<b>10</b>	300
	<b>5,844</b>	1,820

*Note:*

	<b>For the three months ended 31 March</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Gross rental income	<b>74</b>	–
Less: outgoings (included in cost of sales)	<b>(3)</b>	–
Net rental income	<b>71</b>	–



**4. Finance costs**

	<b>For the three months ended 31 March</b>	
	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on bank loans, wholly repayable within five years	<b>21</b>	–
Effective interest expense on convertible preference shares	<b>57</b>	148
Interest on loan from former fellow subsidiaries/a fellow subsidiary	<b>301</b>	138
	<b>379</b>	286

**5. Taxation**

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the period ended 31 March 2011 and 2010. No provision for Hong Kong Profits Tax has been made for both periods as the Group does not have any assessable profit subject to Hong Kong Profits Tax for both periods.

No deferred tax asset has been recognised due to the unpredictability of future profits streams. The losses may be carried forward indefinitely.

**6. Dividend**

The Board do not recommend any payment of interim dividend for the three months ended 31 March 2011 (2010: Nil).

**7. Loss per share**

The calculation of the basic loss per share for the three months ended 31 March 2011 and 2010 is based on the respective unaudited consolidated loss for the period attributable to owners of the Company of approximately HK\$3,202,000 (2010: approximately HK\$4,901,000) and the weighted average of 2,424,599,690 (2010: 2,010,377,468) ordinary shares of HK\$0.01 each in issue during the three months ended 31 March 2011.

The basic and diluted loss per share will be the same as the computation of diluted loss per share on the assumption of no conversion of the Company's outstanding convertible preference shares of which their exercise would result in a decrease in loss per share.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

The Group is principally engaged in the provision of one-stop value chain services to telecommunications, information technology and advanced manufacturing industries, health care business and real property investment.

During the three months ended 31 March 2011, the Group recorded a revenue of approximately HK\$5,834,000 (three months ended 31 March 2010: approximately HK\$1,520,000), representing an increase of approximately 284% as compared with the last corresponding period. This increase was mainly due to our expansion into the new business of health care services.

Cost of sales amounted to approximately HK\$3,587,000 for the three months ended 31 March 2011 (three months ended 31 March 2010: approximately HK\$1,476,000), representing an increase of approximately 143% as compared with the last corresponding period. This increase was in line with the increase in revenue for the period.

Administrative expenses amounted to approximately HK\$5,080,000 for the three months ended 31 March 2011 (three months ended 31 March 2010: approximately HK\$4,959,000), representing an increase of approximately 2% as compared with the last corresponding period.

Finance costs for the three months ended 31 March 2011 was approximately HK\$379,000 (three months ended 31 March 2010: approximately HK\$286,000), representing an increase of approximately 33% as compared with the last corresponding period. The increase was mainly due to the increase in loan interest payment.

As at 31 March 2011, the Group held real properties in Hong Kong for investment purposes in an aggregate amount of approximately HK\$10,770,000 (three months ended 31 March 2010: Nil).

The Group recorded a loss attributable to owners of the Company for the three months ended 31 March 2011 of approximately HK\$3,202,000 (three months ended 31 March 2010: approximately HK\$4,901,000). As a result, basic loss per share of the Company was decreased from HK0.24 cent for the three months ended 31 March 2010 to HK0.13 cent for the three months ended 31 March 2011.

## Liquidity and Financial Resources

The Group financed its business operations with internally generated resources and a loan from former fellow subsidiaries of the Group during the period under review. As at 31 March 2011, the cash and cash equivalent of the Group was approximately HK\$807,000 (31 December 2010: approximately HK\$3,404,000).

As at 31 March 2011, the net liabilities of the Group was approximately HK\$7,972,000 (31 December 2010: net liabilities of approximately HK\$4,769,000) and the net current liabilities was approximately HK\$43,000 (31 December 2010: net current assets of approximately HK\$2,105,000).

## Capital Structure

There was no change in the Company's capital structure during the three months ended 31 March 2011. As at 31 March 2011, the Company's issued ordinary share capital was HK\$24,245,996.90 divided into 2,424,599,690 shares of HK\$0.01 each ("Shares") (31 December 2010: HK\$24,245,996.90 divided into 2,424,599,690 Shares). The issued convertible preference share capital was HK\$2,612,000 divided into 26,120,000 convertible preference shares of HK\$0.10 each ("CP Shares") (31 December 2010: HK\$2,612,000 divided into 26,120,000 CP Shares).

## Fund Raising Activities

The Company entered into a placing agreement on 10 December 2010 (as supplemented by a supplemental placing agreement on 21 December 2010 and a second supplemental placing agreement on 7 March 2011) with Fortune (HK) Securities Limited (as the placing agent) in relation to the placing on a fully-underwritten basis of 150,000,000 new Shares at the placing price of HK\$0.149 between 31 March 2011 to 30 June 2011, which new Shares will be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 7 May 2010. It is estimated that the gross proceeds and the net proceeds from the placing will be approximately HK\$22.4 million and HK\$21.7 million, respectively. The Company intends to use the net proceeds for repayment of debt and for the working capital of the Group. Completion of the placing is subject to, among others, satisfaction of the conditions precedent set out in the placing agreement (as amended). As at the date hereof, the placing has not completed. For further details, please refer to the Company's announcements dated 13 December 2010, 21 December 2010 and 7 March 2011, respectively.

**Material Acquisitions and Disposals of Subsidiaries**

The Group did not have any material acquisition or disposal of any of its subsidiaries during the period under review.

**Significant Investments**

Save as disclosed above, as at 31 March 2011, the Group did not possess any significant investments.

**Outlook**

During the period under review, the Group on the one hand continued its principal businesses of provision of one-stop value chain services to telecommunications, information technology and advanced manufacturing industries, health care business and real property investment, while on the other has kept evaluating opportunities to acquire new businesses with a view to diversify its revenue source both in terms of business segments and geographical locations. As reported in the 2010 Annual Report of the Company with respect to the power, chemical and mining-related project, the Company and the Vendor will continue to discuss the revised terms of the Proposed Investment in the Target Company and will seek further advice from professionals and regulators. Further announcement(s) will be made if it shall no longer proceed with the Proposed Investment. The Target Company is a party to a joint venture agreement in respect of an equity investment in a Sino-foreign equity joint venture whose principal businesses include, among others, investment in the power industry; chemical industry; advanced and innovative technology industry; coal mining-related business; transportation of coal; and wholesale, retail and maintenance of mining-related equipment. The Board believes that, if this equity investment materialises, not only will such new business likely become an important focus of the Group, but will also strengthen the Group's presence in the PRC, further the Group's participation in the PRC market where possible to seize other opportunities ahead.

Furthermore, the Board will continue to adopt a positive yet prudent approach in its investment strategy and will continue to seek other investment opportunities and to explore the feasibility of expansion into other business segments with a view to diversify the Group's business portfolio aiming to enhance the Group's profitability and the shareholders' value in the long run.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS**

As at 31 March 2011, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Director.

## **DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES**

Save as disclosed under the section "DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS" above, at no time during the three months ended 31 March 2011, there subsisted arrangements to which the Company or any of its subsidiaries is a party, being arrangements whose subjects are, or one of whose objects is, to enable any of the directors or the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the directors of the Company, their spouse or their children under the age of 18, had any right to subscribe for the securities of the Company during the three months ended 31 March 2011.

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 March 2011, the following persons or companies, other than the directors or chief executive of the Company, had interests or short positions directly or indirectly in the shares or underlying shares of the Company disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

### Long positions and short positions in the shares and underlying shares of the Company:

Name	Capacity	Number of shares	Number of underlying shares	Total number of Shares and underlying shares	Approximate percentage of shareholding in the Company
					<i>(Note 1)</i>
China Railway Logistics Limited	Interest of controlled corporation	645,776,000 (L)	227,130,430 (L)	872,906,430 (L)	36.00%
		633,776,000 (S)	–	633,776,000 (S)	26.14%
		<i>(Note 2)</i>	<i>(Note 3)</i>		
		<i>(Note 2)</i>			
Yiu Yat Hung	Interest of controlled corporation	537,276,000 (L)	–	537,276,000 (L)	22.16%
		<i>(Note 4)</i>			
China Fortune Group Limited	Interest of controlled corporation	150,000,000 (L)	–	150,000,000 (L)	6.19%
<i>(Note 5)</i>		<i>(Note 6)</i>			

*L: Long position*

*S: Short position*

*Notes:*

- As at 31 March 2011, the Company's issued ordinary share capital was HK\$24,245,996.90 divided into 2,424,599,690 Shares of HK\$0.01 each.
- These shares are held by Top Status International Limited ("Top Status"), a company incorporated in the British Virgin Islands with limited liability. Top Status is in turn wholly-owned by China Railway Logistics Limited (Stock code: 8089) ("China Railway"), a company incorporated in Bermuda with limited liability, the issued shares of which are listed on GEM of the Stock Exchange. As such, China Railway is deemed to be interested in these shares.

3. These underlying shares represent a maximum of 227,130,430 new Shares that may be issued pursuant to the convertible preference shares of the Company held by Top Status. Top Status is in turn wholly-owned by China Railway. As such, China Railway is deemed to be interested in these shares.
4. These shares are held by China Coalfields International Group Limited ("China Coalfields"), a company incorporated in Hong Kong with limited liability. China Coalfields is in turn wholly-owned by Yiu Yat Hung. As such, Yiu Yat Hung is deemed to be interested in these shares.
5. Fortune (HK) Securities Limited ("Fortune (HK)"), a company incorporated in Hong Kong with limited liability, is wholly-owned by Fortune Financial (Holdings) Limited ("Fortune Financial"), a company incorporated in Hong Kong with limited liability. Fortune Financial is in turn wholly-owned by China Fortune Group Limited (Stock code: 290) ("China Fortune"), a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on the Main Board of the Stock Exchange. As such, each of Fortune Financial and China Fortune is deemed to be interested in the shares of which Fortune (HK) is interested in.
6. As at the date hereof, these 150,000,000 shares have not been issued. For further details, please refer to the above section headed "Fund Raising Activities" reporting the placing of 150,000,000 new Shares of which Fortune (HK) is the placing agent.

Save as disclosed above, the Company is not aware of any other person, other than a director or the chief executive of the Company, who held interests or short positions in the shares and underlying shares of the Company as at 31 March 2011 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **COMPETING INTERESTS**

None of the directors or controlling shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that compete with the business of the Group or has or may have any other conflict of interest with the Group during the three months ended 31 March 2011.

### **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the three months ended 31 March 2011, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.



## AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") on 31 July 2001 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee currently comprises three independent non-executive Directors; namely, Mr. Chau Chi Ming (Chairman of the Audit Committee), Mr. Cheung Tak Shum and Mr. Lau Tin Cheung.

The unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2011 have been reviewed by the members of the Audit Committee.

By Order of the Board

**China Eco-Farming Limited**

**Tsang Chi Hin**

*Chief Executive Officer and Executive Director*

Hong Kong, 11 May 2011

*As at the date of this report, the chief executive officer and executive Director is Mr. Tsang Chi Hin; the executive Director is Mr. Chu Yu Man, Philip; and the independent non-executive Directors are Mr. Chau Chi Ming, Mr. Cheung Tak Shum and Mr. Lau Tin Cheung.*