



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

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

## Interim Report 2011



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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*This report, for which the directors 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 “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\$11,858,000 for the six months ended 30 June 2011 (representing an increase of approximately 0.63% as compared with approximately HK\$11,784,000 for the last corresponding period).

The unaudited loss for the period attributable to owners of the Company for the six months ended 30 June 2011 was approximately HK\$6,494,000, representing a decrease of approximately 22% as compared with approximately HK\$8,303,000 for the last corresponding period.

The board of directors of the Company (the “Board”) do not recommend any payment of interim dividend for the six months ended 30 June 2011.

## UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

The Board hereby announce the unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2011 together with the comparative figures for the last corresponding periods.

### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Expressed in Hong Kong dollars)

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Revenue	3	<b>6,024</b>	10,264	<b>11,858</b>	11,784
Cost of sales		<b>(3,680)</b>	(10,162)	<b>(7,267)</b>	(11,638)
Gross profit		<b>2,344</b>	102	<b>4,591</b>	146
Other revenue	3	<b>15</b>	2	<b>25</b>	302
Administrative expenses		<b>(5,272)</b>	(3,298)	<b>(10,352)</b>	(8,257)
Finance costs	5	<b>(379)</b>	(208)	<b>(758)</b>	(494)
Loss before taxation		<b>(3,292)</b>	(3,402)	<b>(6,494)</b>	(8,303)
Taxation	6	-	-	-	-
Loss for the period and total comprehensive expense for the period attributable to owners of the Company		<b>(3,292)</b>	(3,402)	<b>(6,494)</b>	(8,303)
Loss for the period Loss per share					
- Basic and diluted (HK cents)	8	<b>(0.14)</b>	(0.15)	<b>(0.27)</b>	(0.38)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Notes	At 30 June 2011 (Unaudited) \$'000	At 31 December 2010 (Audited) \$'000
<b>Non-current Assets</b>			
Plant and equipment	9	2,723	3,473
Investment properties		10,770	10,770
Intangible assets		-	-
Goodwill		-	-
Investment in an associate		1	1
Available-for-sale investment		500	-
Deposit paid for operating right		1,200	1,200
		<b>15,194</b>	15,444
<b>Current Assets</b>			
Trade and other receivables, deposits and prepayments	10	2,292	2,255
Bank balances and cash		1,018	3,404
		<b>3,310</b>	5,659
<b>Current Liabilities</b>			
Other payables and accruals		984	1,154
Amount due to a former fellow subsidiary		538	-
Secured bank loans		5,850	2,400
Loan from former fellow subsidiaries		20,000	-
		<b>27,372</b>	3,554
<b>Net Current (Liabilities) Assets</b>		<b>(24,062)</b>	2,105
<b>Total Assets less Current Liabilities</b>		<b>(8,868)</b>	17,549
<b>Non-current Liabilities</b>			
Loan from former fellow subsidiaries		-	20,000
Convertible preference shares	11	2,395	2,318
		<b>2,395</b>	22,318
		<b>(11,263)</b>	(4,769)
<b>Capital and reserves</b>			
Share capital	12	24,246	24,246
Reserves		(35,509)	(29,015)
<b>Equity attributable to owners of the Company</b>		<b>(11,263)</b>	(4,769)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011 (Expressed in Hong Kong dollars)

	Attributable to owners of the Company					
	Share capital	Share premium	Equity component of convertible preference shares	Special reserve	Accumulated losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<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	-	-	-	-	(8,303)	(8,303)
Conversion of convertible preference shares	15,000	3,106	(3,776)	-	-	14,330
<b>At 30 June 2010</b>	24,126	11,262	345	6,026	(39,747)	2,012
<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	-	-	-	-	(6,494)	(6,494)
<b>At 30 June 2011</b>	<b>24,246</b>	<b>11,066</b>	<b>538</b>	<b>6,026</b>	<b>(53,139)</b>	<b>(11,263)</b>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in Hong Kong dollars)

	For the six months ended 30 June	
	2011	2010
	\$'000	\$'000
Net cash used in operating activities	<b>(4,557)</b>	(15,661)
Net cash (used in) from investing activities	<b>(482)</b>	1
Net cash from (used in) financing activities	<b>2,653</b>	(3,006)
Net decrease in cash and cash equivalents	<b>(2,386)</b>	(18,666)
Cash and cash equivalents at the beginning of period	<b>3,404</b>	23,985
Effect of foreign exchange rates changes	-	21
Cash and cash equivalents at the end of period, represented by bank balances and cash	<b>1,018</b>	5,340

## **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 do not consider there is any company being 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 also the functional currency of the Group.

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

The unaudited condensed interim 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 the accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed financial results have been prepared on the historical cost basis except for the investment properties and the 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 six months ended 30 June 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 HKFRS 3 (Revised in 2008), HKFRS 7, HKAS 1 and HKAS 28 <sup>1</sup>
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>2</sup>
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>2</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>3</sup>
HKFRS 9	Financial Instruments <sup>3</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:

	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Revenue:				
One-stop value chain services	1,201	10,264	2,401	11,784
Health care services	4,732	–	9,292	–
Rental income (note)	91	–	165	–
	<b>6,024</b>	10,264	<b>11,858</b>	11,784
Others revenue	15	2	25	302
	<b>6,039</b>	10,266	<b>11,883</b>	12,086

Note:

	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	2011	2010
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Gross rental income	91	–	165	–
Less: outgoings (included in cost of sales)	(6)	–	(9)	–
Net rental income	85	–	156	–

#### 4. Segment information

The Group's operation segments, based on information reported to the Board, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on types of goods or services delivered or provided.

The Group's reportable segments under HKFRS 8 are as follows:

1. One-stop value chain services – provision of total solution services including trading, packaging and logistic solutions
2. Health care services – provision of health care services
3. Property investment – generated rental income from operating leases of Group's investment properties

#### Segment revenues and results

The following is an analysis of the Group's revenue and results from operations by reportable segment:

	One-stop value chain services		Health care services		Property investment		Total	
	For the six months ended 30 June							
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
REVENUE								
External sales	2,401	11,784	9,292	-	165	-	11,858	11,784
Segment results	(740)	(3,173)	4,363	-	156	-	3,779	(3,173)
Unallocated corporate revenue							25	302
Unallocated corporate expenses							(9,540)	(4,938)
Finance costs							(758)	(494)
Loss before taxation							(6,494)	(8,303)

The accounting policies of the above reportable segments are the same as the Group's accounting policies. Segment profit/loss represents the profit earned by/loss from each segment without allocation of central administration costs, directors' emoluments, interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

## 5. Finance costs

	For the three months ended 30 June		For the six months ended 30 June	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest on bank loans repayable within five years	21	–	42	–
Effective interest expense on convertible preference shares	59	48	116	196
Interest on loan from former fellow subsidiaries/ a fellow subsidiary	299	160	600	298
	<b>379</b>	208	<b>758</b>	494

## 6. Taxation

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the periods ended 30 June 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.

## 7. Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

## 8. Loss per share

The calculation of basic loss per share for the three months and six months ended 30 June 2011 and 2010 is based on the respective unaudited consolidated loss for the periods attributable to owners of the Company of approximately HK\$3,292,000 (30 June 2010: HK\$3,402,000) and HK\$6,494,000 (30 June 2010: HK\$8,303,000), and the weighted average of 2,424,599,690 (30 June 2010: 2,212,599,690) ordinary shares of HK\$0.01 each in issue during both the three months and six months ended 30 June 2011.

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

## 9. Plant and equipment

There was no addition of plant and equipment for the six months ended 30 June 2011 (2010: Nil).

## 10. Trade receivables

The credit periods granted to the Group's trade receivables generally ranges from 30 days to 180 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting date:

	<b>At 30 June 2011 (Unaudited) HK\$'000</b>	At 31 December 2010 (Audited) HK\$'000
0 to 30 days	<b>1,046</b>	1,195
31 to 90 days	<b>41</b>	10
	<b>1,087</b>	1,205

## 11. Convertible preference shares

	<b>Number of Shares</b>	<b>Amount HK\$'000</b>
<i>Authorised:</i>		
At 31 December 2010 and 30 June 2011, HK\$0.10 each	173,913,043	17,391
<i>Issued and fully paid:</i>		
At 31 December 2010 and 30 June 2011, HK\$0.10 each	22,713,043	2,271

*Note:* Following the Share Subdivision took effect on 13 October 2009, the conversion price of the convertible preference shares was adjusted from HK\$0.115 per share to HK\$0.0115 per share.

The principal terms of the convertible preference shares (the "CP Shares") on the date of issue include the following:

### **(i) Dividend**

A dividend of HK\$39,000 calculated at 3% of par value of the CP Shares were paid for the six months ended 30 June 2011 (year ended 31 December 2010: HK\$92,000). No dividends accrued or paid upon the CP Shares until 31 December 2007. An accrued dividend at the rate of 3% of par value will be paid annually.

### **(ii) Capital**

On a return of capital on liquidation or otherwise (but not on conversion), the holders of the CP Shares ("CP Shareholders") shall have the right to be paid, in priority to any return of assets in respect of any other class of shares in the capital of the Company up to an amount equal to the aggregate notional value of \$20 million (equivalent to approximately HK\$0.115 per CP Share).

### **(iii) Redemption**

The Company shall redeem all of the CP Shares at par plus the accrued and unpaid dividends at the maturity date falling five years from the date of allotment and issue of CP Shares.

### **(iv) Conversion rights**

Each CP Shareholder shall have the right to convert at any time any CP Share, which shall be deemed to have a value equal to the notional value thereof, into ordinary shares at the conversion price of HK\$0.115 per share, subject to adjustment provisions which are standard terms for convertible securities of similar type.

Each CP Shareholder shall exercise the conversion right attaching to the CP Shares only if it has been confirmed by the Company in writing that the allotment and issue of the ordinary shares to such CP Shareholder and the Company will only issue the ordinary shares pursuant to an exercise of such conversion right if such issue will not cause the Company to be in breach of the minimum public float requirement of not less than 25% as stipulated under Rule 11.23 of the GEM Listing Rules.

**(v) Transferability**

The CP Shares may be freely transferable subject to the provision of the Company's bye-laws relating to the transfer of shares and share certificates and provided that no transfer of a CP Share shall be effected within a period of six months commencing on the date of issue of such CP Share.

**(vi) Voting**

The CP Shareholders shall not have the right to receive notice of, or to attend and vote at, general meetings of the Company, unless a resolution is to be proposed at a general meeting of the Company for winding up the Company or which if passed would vary or abrogate the rights or privileges of the CP Shareholders.

The net proceeds received from the issue of the CP Shares contain two components:

- (a) liability component represents the present value of the contractually determined stream of future cash flows discounted at the effective interest rate of 10.27% per annum; and
- (b) equity component represents the difference between the proceeds of issue of the CP Shares and the fair value assigned to the liability component.

The movement of the CP Shares is as follows:

	<b>Liability component</b> <i>HK\$'000</i>	<b>Equity component</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2010	16,549	4,121	20,670
Conversion during the year	(14,447)	(3,583)	(18,030)
Interest charged for the year	308	–	308
3% CP dividend	(92)	–	(92)
<b>At 31 December 2010</b>	<b>2,318</b>	<b>538</b>	<b>2,856</b>
At 1 January 2011	2,318	538	2,856
Interest charged for the period	116	–	116
3% CP dividend	(39)	–	(39)
<b>At 30 June 2011</b>	<b>2,395</b>	<b>538</b>	<b>2,933</b>

## 12. Share capital

	At 30 June 2011 (Unaudited)		At 31 December 2010 (Audited)	
	Number of Shares	Amount HK\$'000	Number of Shares	Amount HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.01 each	3,260,869,570	32,609	3,260,869,570	32,609
<i>Issued and fully paid :</i>				
Ordinary shares of HK\$0.01 each	2,424,599,690	24,246	2,424,599,690	24,246

## 13. Operating lease commitment

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 June 2011 (Unaudited) HK\$'000	At 31 December 2010 (Audited) HK\$'000
Within one year	2,893	4,118
In the second to the fifth year inclusive	25	723
	<b>2,918</b>	4,841

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business review

The Group has been 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 telecommunications and IT business recorded an unaudited revenue of approximately HK\$2,401,000 for the period under review (six months ended 30 June 2010: approximately HK\$11,784,000), representing a decrease of approximately 80% as compared to the last corresponding period. This decrease was mainly due to uncertainties in the global external environment and the keen competition in the telecommunication markets in HK and the PRC.

A rental income of approximately HK\$165,000 was recorded for the period under review. As at 30 June 2011, the Group held real properties in Hong Kong for investment purposes amounted to approximately HK\$10,770,000 (31 December 2010: approximately HK\$10,770,000).

The health care services business, which commenced in the fourth quarter of 2010, contributed a revenue of approximately HK\$9,292,000 for the period under review. It represented approximately 78% of the Group's revenue for the period under review.

### Financial Review

During the six months ended 30 June 2011, the Group recorded an unaudited revenue of approximately HK\$11,858,000 (six months ended 30 June 2010: approximately HK\$11,784,000), representing an increase of approximately 0.63% as compared with the last corresponding period.

Cost of sales during the six months ended 30 June 2011 was approximately HK\$7,267,000 (six months ended 30 June 2010: approximately HK\$11,638,000), representing a decrease of approximately 38% as compared with the last corresponding period. The gross profit ratio increased from 1% (six months ended 30 June 2010) to 39% for the six months ended 30 June 2011. This significant increase was due to the commencement of our health care services business since the fourth quarter of 2010.

Administrative expenses during the six months ended 30 June 2011 was approximately HK\$10,352,000 (six months ended 30 June 2010: approximately HK\$8,257,000), representing an increase of approximately 25% as compared with the last corresponding period. This increase was mainly due to our expansion into the business of healthcare services.

Finance costs during the six months ended 30 June 2011 was approximately HK\$758,000 (six months ended 30 June 2010: approximately HK\$494,000), representing an increase of approximately 53% as compared with the last corresponding period. The increase was mainly due to an increase in loan interest payment.

The unaudited loss attributable to owners of the Company for the six months ended 30 June 2011 was approximately HK\$6,494,000 (six months ended 30 June 2010: approximately HK\$8,303,000). As a result, the basic loss per share of the Company was decreased from HK0.38 cent for the six months ended 30 June 2010 to HK0.27 cent for the six months ended 30 June 2011.

### **Liquidity and Financial Resources**

The Group financed its business operations with internally generated resources, a secured bank loan and a loan from former fellow subsidiaries of the Group during the period under review. As at 30 June 2011, the cash and cash equivalents of the Group was approximately HK\$1,018,000 (31 December 2010: approximately HK\$3,404,000).

As at 30 June 2011, the net liabilities of the Group was approximately HK\$11,263,000 (31 December 2010: net liabilities of approximately HK\$4,769,000) and the net current liabilities was approximately HK\$24,062,000 (31 December 2010: net current assets of approximately HK\$2,105,000).

As at 30 June 2011, the total liabilities of the Group amounted to approximately HK\$29,767,000 (31 December 2010: approximately HK\$25,872,000), which mainly comprised other payables and accruals, amount due to a former fellow subsidiary, secured bank loans, loan from former fellow subsidiaries and the liability component of convertible preference shares of the Company.

As at 30 June 2011, the Group held total assets of approximately HK\$18,504,000 (31 December 2010: approximately HK\$21,103,000).

### **Gearing Ratio**

The gearing ratio of the Group, expressed as the ratio of total liabilities to total assets, increased to 1.6 as at 30 June 2011 (31 December 2010: 1.2).

## **Capital Structure**

There was no change in the Company's capital structure during the six months ended 30 June 2011. As at 30 June 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 with Fortune (HK) Securities Limited (as the placing agent) on 10 December 2010 (as amended and supplemented by a supplemental placing agreement on 21 December 2010, a second supplemental placing agreement on 7 March 2011 and a third supplemental placing agreement on 7 June 2011) in relation to the placing on a fully-underwritten basis of 300,000,000 new Shares at the placing price of HK\$0.09 per share during the period commencing from execution of the placing agreement on 10 December 2010 to 12 August 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 6 May 2011. It was estimated that the gross and the net proceeds from the placing would be approximately HK\$27 million and HK\$26.3 million, respectively. The Company intends to use the net proceeds for repayment of debt and for the working capital of the Group. 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, 7 March 2011 and 7 June 2011, respectively.

## **Charges on Group's Assets**

Investment properties with a carrying value of approximately HK\$10,770,000 (31 December 2010: approximately HK\$4,900,000) was pledged as security for the banking facilities granted to the Group.

## **Contingent Liabilities**

As at 30 June 2011, the Group did not have any material contingent liabilities (31 December 2010: Nil).

## **Capital Commitments**

As at 30 June 2011, the Group did not have any significant capital commitment (31 December 2010: Nil).

## **Exposure to Fluctuations in Exchange Rates**

All of the Group's assets, liabilities and transactions are mainly denominated in Hong Kong dollars. The Directors do not consider that the Group is exposed to any material foreign currency exchange risk. Therefore, no hedging devices or any other alternatives have been implemented.

## **Material Acquisitions and Disposals of Subsidiaries and Real Properties**

Save as disclosed above, the Group did not have any other material acquisition or disposal of any of its subsidiaries or real properties during the period under review.

## **Significant Investments**

Save as disclosed above, the Group did not possess any significant investment during the period under review.

## **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. 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.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2011, the Group had 12 full-time employees in Hong Kong (30 June 2010: 22; 31 December 2010: 16). Staff costs for the six months ended 30 June 2011, including Directors' emoluments, were approximately HK\$2,621,000 (six months ended 30 June 2010: approximately HK\$2,672,000).

The Group decided the remuneration and compensation payable to its staff based on individual performance and expertise. Apart from basic remuneration, share options may be granted to eligible employees by reference to the Group's performance as well as individual contribution. Other benefits include, retirement schemes.

## **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 30 June 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 Future 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 Directors.

## **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 six months ended 30 June 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 six months ended 30 June 2011.

## **DIRECTORS' INTERESTS IN CONTRACTS**

No Director of the Company had a significant beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any its subsidiaries was a party at any time during the six months ended 30 June 2011.

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware of and having made due enquiries, as at 30 June 2011, the following parties, other than the Directors or the chief executive of the Company, had interests or short positions directly or indirectly in the shares and underlying shares of the Company disclosed to the Company under the provisions of Division 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:

### 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%
		<i>(Note 2)</i>	<i>(Note 3)</i>		
		633,776,000 (S)	–	633,776,000 (S)	26.14%
		<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 <i>(Note 5)</i>	Interest of controlled corporation	300,000,000 (L)	–	300,000,000 (L)	12.37%
		<i>(Note 6)</i>			

*L: Long position*

*S: Short position*

*Notes:*

1. As at 30 June 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.
2. 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 to satisfy the conversion rights attached 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 shares have not been issued. For further details, please refer to the above section headed "Fund Raising Activities" reporting the placing of 300,000,000 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 30 June 2011 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

## SHARE OPTION SCHEME

The Company adopted a share option scheme on 24 January 2002 (the “Scheme 2002”). Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 6 May 2011, the Scheme 2002 was terminated and a new share option scheme (the “Scheme 2011”) was adopted.

During the six months ended 30 June 2011, there was no share option granted, exercised, cancelled or lapsed under the Scheme 2002 or the Scheme 2011; and there was no share option remained outstanding under the Scheme 2002 or the Scheme 2011 as at 31 December 2010 and 30 June 2011.

## COMPETING INTERESTS

During the period under review, the Company did not have any controlling shareholders. None of the directors of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that compete or may compete with the business of the Group or had or may have any other conflict of interest with the Group during the period under review.

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the period under review except for the following deviation:

Provision A.2.1 of the CG Code prescribed, among others, the roles of chairman of the Board and chief executive officer of the Company should be separate and should not be performed by the same individual. Mr. Tang Shun Lam resigned as chairman and non-executive director of the Company with effect from 13 August 2009 and no replacement of the post of chairman has been appointed since Mr. Tang’s resignation. The Board will keep reviewing the current structure of the Board from time to time. If candidate with suitable knowledge, skills and experience is identified, the Company will make appointment to fill the post as appropriate.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the code of conduct for securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "Code"). Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard as set out in the Code during the six months ended 30 June 2011.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period under review, 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 GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the 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 six months ended 30 June 2011 have been reviewed by the Audit Committee.

By Order of the Board  
**China Eco-Farming Limited**  
**Tsang Chi Hin**

*Chief Executive Officer and Executive Director*

Hong Kong, 29 July 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.*