



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 2012

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 the “Latest Company Reports” 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\$7,521,000 for the three months ended 31 March 2012, representing an increase of approximately 29% as compared with approximately HK\$5,834,000 for the corresponding period in 2011.

The unaudited loss for the period attributable to owners of the Company for the three months ended 31 March 2012 amounted to approximately HK\$4,128,000, representing an increase of approximately 29% as compared with HK\$3,202,000 for the corresponding period in 2011.

The board of Directors of the Company (the “Board”) does not recommend any payment of interim dividend for the three months ended 31 March 2012.

UNAUDITED CONDENSED CONSOLIDATED QUARTERLY RESULTS

The Board announces the unaudited condensed consolidated results of the Group for the three months ended 31 March 2012 together with the comparative figures for the corresponding period in 2011.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Expressed in Hong Kong dollars)

	NOTES	For the three months ended 31 March	
		2012 HK\$'000	2011 HK\$'000
Revenue	3	7,521	5,834
Cost of sales		(5,403)	(3,587)
Gross profit		2,118	2,247
Other revenue	3	2	10
Administrative expenses		(5,671)	(5,080)
Finance costs	4	(577)	(379)
Loss before taxation		(4,128)	(3,202)
Taxation	5	-	-
Loss for the period, representing total comprehensive expense for the period		(4,128)	(3,202)
Loss per share	7	(0.17)	(0.13)
Basic and diluted (HK cents)			

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2012 (Expressed in Hong Kong dollars)

	Share capital \$'000	Share premium \$'000	Equity component of convertible preference shares \$'000	Special reserve \$'000	Accumulated losses \$'000	Total \$'000
At 1 January 2011	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)
At 31 March 2011	24,246	11,066	538	6,026	(49,847)	(7,971)
At 1 January 2012	24,246	11,066	538	6,026	(59,303)	(17,427)
Placing of new shares	2,800	16,240	-	-	-	19,040
Transaction costs attributable to placing of new shares	-	(592)	-	-	-	(592)
Loss for the period, representing total comprehensive expense for the period	-	-	-	-	(4,128)	(4,128)
At 31 March 2012	27,046	26,714	538	6,026	(63,431)	(3,107)

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 (the "Shares") have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 5 February 2002.

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 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 three months ended 31 March 2012.

During the three months ended 31 March 2012, the Company and its subsidiaries (collectively known as the "Group") have been principally engaged in the health care business, trading of ceramic products, property investment and one-stop value chain services.

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 (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 on 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 2012 are consistent with those adopted in preparing the audited consolidated financial statements of the Group for the year ended 31 December 2011 except for the following amendments and interpretation ("New HKFRSs") issued by HKICPA which are or shall be in effect:

Amendment to HKFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets ¹ Disclosures – Offsetting Financial Assets and Financial Liabilities ² Mandatory Effective Date of HKFRS 9 and Transition Disclosures ² Financial Instruments ³
HKFRS 9	Consolidated Financial Statements ²
HKFRS 10	Joint Arrangements ²
HKFRS 11	Disclosure of Interests in Other Entities ²
HKFRS 12	Fair Value Measurement ²
HKFRS 13	Presentation of Items of Other Comprehensive Income ⁴
Amendments to HKAS 1	Employee Benefits ²
HKAS 19 (as revised in 2011)	Separate Financial Statements ²
HKAS 27 (as revised in 2011)	Investments in Associates and Joint Ventures ²
HKAS 28 (as revised in 2011)	Offsetting Financial Assets and Financial Liabilities ⁵
Amendments to HKAS 32	Stripping Costs in the Production Phase of a Surface Mine ²
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¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 July 2012.

⁵ Effective for annual periods beginning on or after 1 January 2014.

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 31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue:		
Health care services	4,667	4,560
Trading of ceramic products	2,745	–
Rental income (<i>note</i>)	109	74
One-stop value chain services	–	1,200
	7,521	5,834
Other revenue	2	10
	7,523	5,844

Note:

	For the three months ended 31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Gross rental income	109	74
Less: outgoings (included in cost of sales)	(3)	(3)
Net rental income	106	71

4. Finance costs

	For the three months ended 31 March	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interest on bank loans, wholly repayable within five years	157	21
Interest on other loans	64	–
Effective interest expense on convertible preference shares	61	57
Interest on loans from a former fellow subsidiary and a shareholder	295	301
	577	379

5. Taxation

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the three months ended 31 March 2012 and 2011. 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 2012 (2011: Nil).

7. Loss per share

The calculation of the basic loss per share for the three months ended 31 March 2012 and 2011 is based on the respective unaudited consolidated loss for the period attributable to owners of the Company of approximately HK\$4,128,000 (2011: HK\$3,202,000) and the weighted average of 2,464,599,690 (2011: 2,424,599,690 Shares) ordinary shares of HK\$0.01 each (the "Shares") in issue during the three months ended 31 March 2012.

Diluted loss per share for the period ended 31 March 2012 and 2011 are the same as the basic loss per share. The computation of diluted loss per share for the two periods ended 31 March 2012 and 31 March 2011 does not assume the conversion of the Company's outstanding convertible preference shares as such conversion would result in a decrease in the loss per share.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the three months ended 31 March 2012 (the "Reporting Period"), the Group has been principally engaged in the health care business, trading of ceramic products, property investment and the one-stop value chain services.

Health Care Business

In respect of the management of health care services business, during the Reporting Period, this business segment reported a revenue of approximately HK\$4,667,000 (three months ended 31 March 2011: HK\$4,560,000), representing a slight increase of approximately 2% as compared with the last corresponding period.

Trading of Ceramic Products

In the fourth quarter of 2011, the Group started its trading of ceramic products in Macau. This new business segment reported a revenue of approximately HK\$2,745,000 for the Reporting Period.

Property Investment

At 31 March 2012, the Group held properties in Hong Kong for investment purpose amounted to approximately HK\$11,500,000 (31 December 2011: HK\$11,500,000).

During the Reporting Period, this business segment reported a gross rental income of approximately HK\$109,000 (three months ended 31 March 2011: HK\$74,000).

One-stop Value Chain Services

The IT and telecommunications business of the Group has not generated any revenue for the Reporting Period (three months ended 31 March 2011: HK\$1,200,000). The decrease was mainly due to uncertainties in the global external environment and keen competition in the manufacturing market in Hong Kong and the PRC.

FINANCIAL REVIEW

During the Reporting Period, the Group recorded a revenue of approximately HK\$7,521,000 (three months ended 31 March 2011: approximately HK\$5,834,000), representing an increase of approximately 29% as compared with the last corresponding period. This increase was mainly due to our expansion into the new business of trading of ceramic products since the fourth quarter of 2011.

Cost of sales for the Reporting Period amounted to approximately HK\$5,403,000 (three months ended 31 March 2011: approximately HK\$3,587,000), representing an increase of approximately 51% as compared with the last corresponding period. This increase was mainly due to the increase in the cost of ceramic products and the health care business.

Administrative expenses for the Reporting Period amounted to approximately HK\$5,671,000 (three months ended 31 March 2011: approximately HK\$5,080,000), representing an increase of approximately 12% as compared with the last corresponding period. This increase was mainly due to increase in professional fee expenses.

Finance costs for the Reporting Period was approximately HK\$577,000 (three months ended 31 March 2011: approximately HK\$379,000), representing an increase of approximately 52% as compared with the last corresponding period. The increase was mainly due to the increase in interest expenses on bank loans and other loans.

The Group recorded a loss attributable to owners of the Company for the Reporting Period of approximately HK\$4,128,000 (three months ended 31 March 2011: approximately HK\$3,202,000). As a result, the basic loss per share of the Company was increased from HK0.13 cent for the three months ended 31 March 2011 to HK0.17 cent for the Reporting Period.

Liquidity and Financial Resources

During the Reporting Period, the Group financed its business operations mainly with its internally generated resources and borrowings. At 31 March 2012, the cash and cash equivalent of the Group was approximately HK\$8,729,000 (31 December 2011: approximately HK\$662,000).

At 31 March 2012, the net liabilities of the Group was approximately HK\$3,107,000 (31 December 2011: HK\$17,427,000) and the net current assets was approximately HK\$2,839,000 (31 December 2011: net current liabilities of approximately HK\$28,174,000).

Capital Structure

The issued ordinary share capital with an aggregate nominal value of HK\$27,045,996.90 is divided into 2,704,599,690 shares of HK\$0.01 each ("Share(s)") as at 31 March 2012 (31 December 2011: HK\$24,245,996.90 divided into 2,424,599,690 Shares).

There were convertible preference shares with an aggregate notional value of HK\$2,612,000 outstanding, which may be converted into 227,130,430 new Shares at the conversion price of HK\$0.0115, as at both 31 March 2012 and 31 December 2011.

During the Reporting Period, 280,000,000 new Shares with the aggregate nominal value of HK\$280,000 were issued pursuant to the Subscription reported under the "Fund Raising Activities" section below.

Fund Raising Activities

Placing of Existing Shares and Subscription of New Shares

On 12 March 2012, Top Status International Limited (as the vendor, the "Vendor"), the Company and FT Securities Limited (as the placing agent) entered into a placing agreement with respect to the placing of up to 280,000,000 existing Shares owned by the Vendor at the placing price of HK\$0.068 per Share (collectively, the "Placing"). Also, on the same day, the Vendor (as the subscriber) and the Company (as the issuer) entered into a subscription agreement with respect to the subscription of such number of new Shares which is equivalent to the number of the Shares actually placed by the Vendor under the Placing, at the subscription price of HK\$0.068 per Share (collectively, the "Subscription"). Both the Placing and the Subscription were completed on 19 March 2012. The 280,000,000 existing Shares were fully placed to not less than six placees and 280,000,000 new Shares were issued to the Vendor. The net proceeds are approximately HK\$18.4 million, out of which HK\$5 million was used for the repayment of a loan and the remainder of approximately HK\$13.4 million is for the general working capital of the Group. For details, please refer to the announcements of the Company dated 13 March 2012 and 19 March 2012, respectively.

Placing of Convertible Bonds

On 12 March 2012, the Company (as the issuer) entered into a conditional placing agreement with FT Securities Limited (as the placing agent) with respect to the placing of convertible bonds up to the principal amount of HK\$20,000,000 due on 31 December 2015. Assuming all the convertible bonds are placed and their conversion rights are exercised in full, a maximum of 200,000,000 new Shares will be issued at the initial conversion price of HK\$0.10 per Share, the maximum gross and net proceeds will be approximately HK\$20 million and HK\$19.4 million, respectively. The Company intends to use the proceeds towards the general working capital of the Group. For details, please refer to the announcement of the Company dated 13 March 2012. As at the date of this report, this placing is not completed.

Material Acquisition

On 20 January 2012, the Company, Prima Target Limited (the "Subscriber", a wholly-owned subsidiary of the Company) and Lion Legend Holdings Limited (the "Issuer") entered into the subscription agreement (as amended and supplemented by the supplement agreements dated 20 March 2012 and 20 April 2012, respectively) (collectively referred to as the "Subscription Agreement") with respect to the subscription of the exchangeable bond in the principal amount of HK\$18,000,000. The subscription price shall be satisfied by the Company by way of issuance of the convertible bonds in the principal amount of HK\$18,000,000 convertible into 480,000,000 new Shares at the conversion price of HK\$0.0375 per Share (collectively, the "Subscription").

The exchangeable bond shall be exchangeable for one share in Kingbridge Investment Limited ("KBI"), representing 10% of the existing issued share capital of KBI. The principal asset of KBI is its 67.11% interest in 兆峰陶瓷(北京)潔具有限公司 (Siu Fung Ceramics (Beijing) Sanitary Ware Company Limited*) ("Siu Fung"), a company incorporated in the PRC with limited liability, which is principally engaged in the manufacturing and trading of ceramic sanitary ware and accessories mainly in the PRC. Furthermore, upon completion of the Subscription, the Issuer shall grant to the Subscriber, at a nominal consideration of HK\$1.00, an option to acquire from the Issuer all the remaining 90% equity interest in KBI, and the entire issued share capital of Hillmond International Holdings Limited, the legal and beneficial owner of 10.89% interest in Siu Fung. The exercise price of the Option shall be satisfied by the Company by issuance of convertible bonds that convertible into not more than 9,000,000,000 new Shares but not less than 71% of the entire issued share capital of the Company on the prescribed enlarged basis as set out in the Subscription Agreement.

* For identification purpose only

Completion of the Subscription is subject to fulfillment or satisfaction (or, where appropriate, the waiver) of the conditions precedent set out in the Subscription Agreement. Furthermore, the Subscription constitutes a major transaction for the Company and is subject to the approval of the shareholders of the Company. It is expected that the related circular and notice of the special general meeting will be dispatched to the shareholders of the Company on or before 14 May 2012. For details, please refer to the announcements of the Company dated 31 January 2012, 20 March 2012 and 23 April 2012, respectively.

Events after the Reporting Period

On 20 April 2012, the parties to the Subscription Agreement (as reported under the “Material Acquisition” section above) entered into a second supplemental agreement to extend the long stop date of the Subscription Agreement to 21 May 2012 (or such other later date as the parties to the second supplemental agreement shall agree in writing). For details, please refer to the announcement of the Company dated 23 April 2012.

OUTLOOK

During the period under review, the Group on the one hand continued its principal businesses of health care business, trading of ceramic products, property investment and provision of one-stop value chain services to telecommunications, information technology and advanced manufacturing industries 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.



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 2012, 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 for 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 and the share option scheme of the Company, at no time during the Reporting Period, 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 Reporting Period.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware and having made due enquiries, as at 31 March 2012, 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 in the shares and underlying shares of the Company:

Name	Capacity	Shares		Underlying Shares	
		Number of Shares	Approximate percentage of the issued share capital <i>(Note 1)</i>	Number of underlying Shares	Approximate percentage of the issued share capital <i>(Note 1)</i>
China Railway Logistics Limited	Interest of controlled corporation	510,776,000 (L) <i>(Note 2)</i>	18.89%	227,130,430 (L) <i>(Note 3)</i>	8.40%
Top Status International Limited	Beneficial owner	510,776,000 (L) <i>(Note 2)</i>	18.89%	227,130,430 (L) <i>(Note 3)</i>	8.40%
Yiu Yat Hung	Interest of controlled corporation	537,276,000 (L) <i>(Note 4)</i>	19.87%	-	-
China Coalfields International Group Limited	Beneficial owner	537,276,000 (L) <i>(Note 4)</i>	19.87%	-	-

* The Letter "L" denotes a long position in the Shares or the underlying Shares.

Notes:

- As at 31 March 2012, the Company's issued ordinary share capital was HK\$27,045,996.90 divided into 2,704,599,690 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 wholly-owned by Rich Best Asia Limited ("Rich Best"), a company incorporated in the British Virgin Islands. Rich Best 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, each of Rich Best and 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 wholly-owned by Rich Best Asia Limited ("Rich Best"), a company incorporated in the British Virgin Islands. Rich Best is in turn wholly-owned by China Railway. As such, each of Rich Best and 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.

Save for 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 2012 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 Reporting Period.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the Reporting Period, 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 2012 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, 7 May 2012

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.