



中國農業生態有限公司
China Eco-Farming Limited

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



2012

Interim Report

HIGHLIGHTS

Financial Highlights

The Company and its subsidiaries (collectively, the “Group”) recorded an unaudited revenue of approximately HK\$12,106,000 for the six months ended 30 June 2012 (the “Reporting Period”), representing an increase of approximately 2% as compared with approximately HK\$11,858,000 for the last corresponding period.

The unaudited loss for the period attributable to owners of the Company for the Reporting Period was approximately HK\$9,258,000, representing an increase of approximately 43% as compared with approximately HK\$6,494,000 for the last corresponding period.

The board of directors of the Company (the “Board”) does not recommend any payment of interim dividend for the Reporting Period.

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

The Board hereby announces the unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2012 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	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Revenue	3	4,585	6,024	12,106	11,858
Cost of sales		(2,791)	(3,680)	(8,194)	(7,267)
Gross profit		1,794	2,344	3,912	4,591
Other revenue	3	4	15	6	25
Administrative expenses		(6,363)	(5,272)	(12,034)	(10,352)
Finance costs	5	(565)	(379)	(1,142)	(758)
Loss before taxation		(5,130)	(3,292)	(9,258)	(6,494)
Taxation	6	-	-	-	-
Loss for the period and total comprehensive expense for the period attributable to owners of the Company		(5,130)	(3,292)	(9,258)	(6,494)
Loss for the period Loss per share – Basic and diluted (HK cents)	8	(0.19)	(0.14)	(0.36)	(0.27)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	Notes	At 30 June 2012 (Unaudited) \$'000	At 31 December 2011 (Audited) \$'000
Non-current Assets			
Plant and equipment	9	1,221	1,946
Investment properties		11,500	11,500
Investment in an associate		1	1
Available-for-sale investment		500	500
		13,222	13,947
Current Assets			
Trade and other receivables	10	4,741	4,783
Deposit paid for operating right		1,200	1,200
Bank balances and cash		1,867	662
		7,808	6,645
Current Liabilities			
Other payables and accruals		2,156	2,292
Amount due to a former fellow subsidiary		240	660
Amount due to a shareholder		150	518
Income tax payable		22	22
Borrowings		5,850	8,850
Loan from a former fellow subsidiary		-	12,000
Loan from a shareholder		-	8,000
Convertible preference shares	11	2,549	2,477
		10,967	34,819
Net Current Liabilities		(3,159)	(28,174)
Total Assets less Current Liabilities		10,063	(14,227)
Non-current Liabilities			
Borrowings		2,000	3,200
Loan from a former fellow subsidiary		12,000	-
Loan from a shareholder		4,300	-
		18,300	3,200
		(8,237)	(17,427)
Capital and Reserves			
Share capital		27,046	24,246
Reserves		(35,283)	(41,673)
		(8,237)	(17,427)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012 (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
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	-	-	-	-	(6,494)	(6,494)
At 30 June 2011	24,246	11,066	538	6,026	(53,139)	(11,263)
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	-	-	-	-	(9,258)	(9,258)
At 30 June 2012	27,046	26,714	538	6,026	(68,561)	(8,237)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in Hong Kong dollars)

	For the six months ended 30 June	
	2012	2011
	\$'000	\$'000
Net cash used in operating activities	(7,526)	(4,557)
Net cash from (used in) investing activities	1	(482)
Net cash from financing activities	8,730	2,653
Net increase (decrease) in cash and cash equivalents	1,205	(2,386)
Cash and cash equivalents at the beginning of period	662	3,404
Cash and cash equivalents at the end of period, represented by bank balances and cash	1,867	1,018

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 have been 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.

During the six months ended 30 June 2012, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the health care services, 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 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.

Except as described below, 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 2012 are consistent with those adopted in preparing the audited consolidated financial statements of the Group for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and amendments (“new and revised HKFRSs”) issued by the HKICPA:

HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets

The adoption of the above new and revised HKFRSs in the current interim period has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s unaudited condensed consolidated financial statements.

The Group has not applied any new or revised HKFRSs that have been issued but are not yet effective for the current accounting period.

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	
	2012 (Unaudited) HK\$’000	2011 (Unaudited) HK\$’000	2012 (Unaudited) HK\$’000	2011 (Unaudited) HK\$’000
Revenue:				
Trading of ceramic products	–	–	2,745	–
Health care services	4,475	4,732	9,142	9,292
Rental income (Note)	110	91	219	165
One-stop value chain services	–	1,201	–	2,401
	4,585	6,024	12,106	11,858
Others revenue	4	15	6	25
	4,589	6,039	12,112	11,883

Note:

	For the three months ended 30 June		For the six months ended 30 June	
	2012 (Unaudited) HK\$’000	2011 (Unaudited) HK\$’000	2012 (Unaudited) HK\$’000	2011 (Unaudited) HK\$’000
Gross rental income	110	91	219	165
Less: outgoings (included in cost of sales)	(6)	(6)	(9)	(9)
Net rental income	104	85	210	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 and operating 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
4. Trading of ceramic products – trading of ceramic sanitary ware products

Segment revenue and results

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

	One-stop value chain services		Health care services		Property investment		Trading of ceramic products		Total	
	For the six months ended 30 June									
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
REVENUE										
External sales	-	2,401	9,142	9,292	219	165	2,745	-	12,106	11,858
Segment results	(607)	(740)	1,285	4,363	186	156	36	-	900	3,779
Unallocated corporate revenue									6	25
Unallocated corporate expenses									(9,022)	(9,540)
Finance costs									(1,142)	(758)
Loss before taxation									(9,258)	(6,494)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment results represents the (loss from) profit earned by each segment without allocation of central administration costs, directors' emoluments, other revenue 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	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interest on bank loans, wholly repayable within five years	52	21	209	42
Interest on other loans	206	–	270	–
Effective interest expense on convertible preference shares	63	59	124	116
Interest on loan from a former fellow subsidiary and a shareholder	244	299	539	600
	565	379	1,142	758

6. Taxation

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

7. Dividend

No dividend was paid or proposed during the interim period, nor any dividend has been proposed since the end of the reporting period (2011: Nil).

8. Loss per share

The calculation of basic loss per share for the three months and six months ended 30 June 2012 and 2011 is based on the respective unaudited consolidated loss for the periods attributable to owners of the Company of approximately HK\$5,130,000 (30 June 2011: HK\$3,292,000) and HK\$9,258,000 (30 June 2011: HK\$6,494,000), and the weighted average of 2,584,599,690 (30 June 2011: 2,424,599,690) ordinary shares of HK\$0.01 each in issue during both the three months and six months ended 30 June 2012.

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 2012 (2011: Nil).

10. Trade and other receivables

	At 30 June 2012 (Unaudited) HK\$'000	At 31 December 2011 (Audited) HK\$'000
Trade receivables	102	3,279
Deposit and other receivables	3,630	429
Prepayments	1,009	1,075
	4,741	4,783

The credit period granted to the Group's trade customers generally ranges from 0 days to 90 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 period.

	At 30 June 2012 (Unaudited) HK\$'000	At 31 December 2011 (Audited) HK\$'000
0 to 30 days	81	3,136
31 to 90 days	5	125
91 to 180 days	16	18
	102	3,279

11. Convertible preference shares

	Number of shares	Amount <i>HK\$'000</i>
<i>Authorised:</i>		
At 31 December 2011 and 30 June 2012, HK\$0.10 each	173,913,043	17,391
<i>Issued and fully paid:</i>		
At 31 December 2011 and 30 June 2012, HK\$0.10 each	22,713,043	2,271

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\$52,000 calculated at 3% of par value of the CP Shares was paid for the six months ended 30 June 2012 (year ended 31 December 2011: HK\$78,000). 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 (*Note*)).

(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. The CP Shares will mature on 6 November 2012.

(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 (*Note*), 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.

Note: Following the share subdivision took effect on 13 October 2009, the conversion price of the CP Shares was adjusted from HK\$0.115 per share to HK\$0.0115 per share.

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.
- (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:

	Liability component <i>HK\$'000</i>	Equity component <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011	2,318	538	2,856
Interest charged for the year	237	–	237
3% CP dividend	(78)	–	(78)
At 31 December 2011	2,477	538	3,015
At 1 January 2012	2,477	538	3,015
Interest charged for the period	124	–	124
3% CP dividend	(52)	–	(52)
At 30 June 2012	2,549	538	3,087

12. Share capital

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares		
<i>Authorised:</i>		
At 31 December 2011 and 30 June 2012, HK\$0.01 each	3,260,869,570	32,609
<i>Issued and fully paid:</i>		
At 1 January 2011 and 31 December 2011, HK\$0.01 each	2,424,599,690	24,246
Placing of new shares (<i>Note</i>)	280,000,000	2,800
At 30 June 2012, HK\$0.01 each	2,704,599,690	27,046

Note: On 12 March 2012, Top Status International Limited ("Top Status") and the Company entered into a subscription agreement pursuant to which Top Status has agreed to subscribe for a maximum number of 280,000,000 shares, at the price of HK\$0.068 per share. The subscription has been completed on 19 March 2012 whereby a total of 280,000,000 subscription shares were allotted and issued.

13. Operating lease commitment

(a) Commitments under operating lease

The Group as lessee

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 2012 (Unaudited) <i>HK\$'000</i>	At 31 December 2011 (Audited) <i>HK\$'000</i>
Within one year	258	1,404
In the second to the fifth year inclusive	-	58
	258	1,462

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	At 30 June 2012 (Unaudited) HK\$'000	At 31 December 2011 (Audited) HK\$'000
Within one year	181	364
In the second to fifth year inclusive	–	36
	181	400

(b) Other commitments

On 5 October 2010, an operating right of health care services is contracted for a term up to 14 April 2012. Pursuant to the operating right, a refundable deposit of HK\$1,200,000 had been paid during the year ended 31 December 2010 and the Group has to pay the owner, a monthly refreshment fee in sum of HK\$100,000, payable at the end of each calendar month during the term.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the Reporting Period, the Group has been principally engaged in the health care services, trading of ceramic products, property investment and the one-stop value chain services.

Health Care Services

In respect of the management of health care services business, during the Reporting Period, this business segment reported a revenue of approximately HK\$9,142,000 (six months ended 30 June 2011: HK\$9,292,000), representing a slight decrease 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 30 June 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\$219,000 (six months ended 30 June 2011: HK\$165,000).

One-stop Value Chain Services

The IT and telecommunications business of the Group has not generated any revenue for the Reporting Period (six months ended 30 June 2011: HK\$2,401,000). This was mainly due to uncertainties in the global external environment and keen competition in the manufacturing market in Hong Kong and the People's Republic of China.

FINANCIAL REVIEW

During the Reporting Period, the Group recorded an unaudited revenue of approximately HK\$12,106,000 (six months ended 30 June 2011: HK\$11,858,000), representing an increase of approximately 2% as compared with the last corresponding period.

Cost of sales for the Reporting Period amounted to approximately HK\$8,194,000 (six months ended 30 June 2011: HK\$7,267,000), representing an increase of approximately 13% 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 services.

Administrative expenses for the Reporting Period amounted to approximately HK\$12,034,000 (six months ended 30 June 2011: HK\$10,352,000), representing an increase of approximately 16% 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\$1,142,000 (six months ended 30 June 2011: HK\$758,000), representing an increase of approximately 51% 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\$9,258,000 (six months ended 30 June 2011: HK\$6,494,000). As a result, the basic loss per share of the Company increased from HK0.27 cent for the six months ended 30 June 2011 to HK0.36 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 30 June 2012, the bank balances and cash of the Group was approximately HK\$1,867,000 (31 December 2011: approximately HK\$662,000).

At 30 June 2012, the net liabilities of the Group was approximately HK\$8,237,000 (31 December 2011: HK\$17,427,000) and the net current liabilities was approximately HK\$3,159,000 (31 December 2011: HK\$28,174,000).

Gearing Ratio

At 30 June 2012, the total liabilities of the Group amounted to approximately HK\$29,267,000 (31 December 2011: HK\$38,019,000), which mainly comprised other payables and accruals, amount due to a former fellow subsidiary, amount due to a shareholder, borrowings, loans from a shareholder and a former fellow subsidiary and the liability component of convertible preference shares of the Company. All of these borrowings are denominated in Hong Kong dollars. The Group's banking facilities were secured by investment properties held by the Group with a carrying value of approximately HK\$11,500,000 as at 30 June 2012 (31 December 2011: HK\$11,500,000).

At 30 June 2012, the Group had total assets of approximately HK\$21,030,000 (31 December 2011: HK\$20,592,000). The gearing ratio of the Group, expressed as the ratio of total liabilities to total assets, decrease to 1.39 as at 30 June 2012 (31 December 2011: 1.85).

Segmental Information

An analysis of the Group's performance for the Reporting Period by business segment is set out in Note 4 to this report.

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 30 June 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 30 June 2012 and 31 December 2011.

Fund Raising Activities

Placing of Exiting 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 announcements of the Company dated 13 March 2012 and 11 May 2012. As at the date of this report, this placing is not yet completed.

Charges on Group's Assets

As at 30 June 2012, investment properties with a carrying value of approximately HK\$11,500,000 (31 December 2011: approximately HK\$11,500,000) was pledged as security for the banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2012, the Group did not have any material contingent liabilities (31 December 2011: Nil).

Capital Commitments

As at 30 June 2012, the Group did not have any significant capital commitment (31 December 2011: 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 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, 20 April 2012, 21 May 2012 and 20 June 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. On 13 June 2012, the Company held a special general meeting (the "SGM") and in the SGM the ordinary resolution to ratify, confirm and approve the Subscription Agreement and the transactions contemplated thereunder and to authorize directors of the Company to do all such acts and thing and execute all such documents necessary to give effect to the Subscription Agreement and the transactions contemplated thereunder was duly passed by the shareholders of the Company by way of poll. With all the conditions of the Subscription Agreement having been fulfilled, the Subscription was completed on 9 July 2012. At completion, the Issuer issued to the Subscriber the exchangeable bond in the principal amount of HK\$18,000,000 and granted the Subscriber the option to acquire from the Issuer all (but not part of) the remaining asset.

The subscription price was 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. The Subscriber had also paid the Issuer a nominal consideration of HK\$1.00 for the Option at completion. For details, please refer to the Company's announcements dated 31 January 2012, 20 March 2012, 23 April 2012, 7 May 2012, 14 May 2012, 21 May 2012, 20 June 2012, 9 July 2012 and the circular dated 28 May 2012.

Significant Investments

Save as disclosed above, the Group did not possess any significant investment during the Reporting Period.

OUTLOOK

During the Reporting Period, the Group continued its principal businesses of health care services, trading of ceramic products, property investment and provision of one-stop value chain services to telecommunications, information technology and advanced manufacturing industries. The Group will expand to the retail and wholesale of ceramic sanitary products and keep 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 2012, the Group had 12 full-time employees in Hong Kong (31 December 2011: 13). Staff costs for the Reporting Period, including Directors' emoluments, were approximately HK\$2,683,000 (six months ended 30 June 2011: approximately HK\$2,621,000).

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 AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June 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 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 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.

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 Reporting Period.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware of and having made due enquiries, as at 30 June 2012, 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 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%

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

Notes:

- As at 30 June 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.
- Pursuant to the corporate substantial shareholder notices filed by Top Status International Limited ("Top Status") and China Railway Logistics Limited (Stock code: 8089) ("China Railway"), these Shares are held by Top Status and China Railway. Top Status, which is a company incorporated in the British Virgin Islands with limited liability, 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, 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.
- 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.

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 2012 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted a new share option scheme on 6 May 2011 (the “Share Option Scheme”).

During the Reporting Period, there was no share option granted, exercised, cancelled or lapsed under the Share Option Scheme and there was no share option remained outstanding under the Share Option Scheme as at 30 June 2012.

COMPETING INTERESTS

During the Reporting Period, 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 Reporting Period.

CORPORATE GOVERNANCE CODE

The Company has complied with the applicable code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 15 of the GEM Listing Rules throughout the Reporting Period 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 of the Company should be separate and should not be performed by the same individual. Throughout the Reporting Period, the Company did not appoint a chairman of the Board. 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 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 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 Reporting Period have been reviewed by the Audit Committee.

By Order of the Board
China Eco-Farming Limited
Tsang Chi Hin
Chief Executive and Executive Director

Hong Kong, 3 August 2012

As at the date of this report, the chief executive 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.