



**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 2013**

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

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

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

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*The 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 the 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 the report misleading.*

*The 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\$9,644,000 for the six months ended 30 June 2013 (the “Reporting Period”) (representing a decrease of approximately 20.34% as compared with approximately HK\$12,106,000 for the last corresponding period).

The unaudited loss for the period attributable to owners of the Company for the Reporting Period was approximately HK\$12,188,000, representing an increase of approximately 31.65% as compared with approximately HK\$9,258,000 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 2013 together with the comparative figures for the last corresponding periods.

### UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Hong Kong dollars)

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Revenue	3	5,313	4,585	9,644	12,106
Cost of sales		(3,465)	(2,791)	(6,141)	(8,194)
Gross profit		1,848	1,794	3,503	3,912
Other revenue	3	2	4	69	6
Administrative expenses		(8,223)	(6,363)	(14,717)	(12,034)
Finance costs	5	(563)	(565)	(1,085)	(1,142)
Gain on disposal of subsidiary		–	–	86	–
Fair value loss on financial assets at fair value through profit or loss		(44)	–	(44)	–
Loss before taxation		(6,980)	(5,130)	(12,188)	(9,258)
Taxation	6	–	–	–	–
Loss for the period and total comprehensive expense for the period attributable to owners of the Company		(6,980)	(5,130)	(12,188)	(9,258)
Loss for the period Loss per share					
– Basic and diluted (HK cents)	8	(0.24)	(0.19)	(0.42)	(0.36)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	<i>Notes</i>	<b>At 30 June 2013 (Unaudited) \$'000</b>	At 31 December 2012 (Audited) \$'000
<b>Non-current Assets</b>			
Plant and equipment	9	<b>363</b>	470
Investment properties		<b>7,420</b>	7,420
Investment in an associate		-	-
Available-for-sale investment		<b>4</b>	4
		<b>7,787</b>	7,894
<b>Current Assets</b>			
Financial assets at fair value through profit or loss		<b>630</b>	-
Trade and other receivables	10	<b>3,096</b>	4,527
Deposit paid for operating right		<b>1,200</b>	1,200
Bank balances and cash		<b>11,368</b>	79
		<b>16,294</b>	5,806
<b>Current Liabilities</b>			
Other payables and accruals		<b>3,100</b>	4,820
Amount due to a former fellow subsidiary		<b>87</b>	600
Amount due to a shareholder		<b>129</b>	306
Income tax payable		<b>22</b>	22
Borrowings		<b>2,400</b>	9,050
Loan from a former fellow subsidiary		-	12,000
Loan from a shareholder		-	4,300
Convertible preference shares	11	-	-
		<b>5,738</b>	31,098
<b>Net Current Assets (Liabilities)</b>		<b>10,556</b>	(25,292)
<b>Total Assets less Current Liabilities</b>		<b>18,343</b>	(17,398)

	<i>Notes</i>	<b>At 30 June 2013 (Unaudited) \$'000</b>	At 31 December 2012 (Audited) \$'000
<b>Non-current Liabilities</b>			
Borrowings		<b>7,000</b>	–
Loan from a former fellow subsidiary		<b>2,000</b>	–
Loan from a shareholder		<b>4,300</b>	–
Convertible bonds	<i>13</i>	<b>4,396</b>	–
		<b>17,696</b>	–
		<b>647</b>	(17,398)
<b>Capital and Reserves</b>			
Share capital	<i>12</i>	<b>29,317</b>	29,317
Reserves		<b>(28,670)</b>	(46,715)
		<b>647</b>	(17,398)

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013 (Expressed in Hong Kong dollars)

	Attributable to owners of the Company						Total \$'000
	Share capital \$'000	Share premium \$'000	Equity component of convertible preference shares \$'000	Equity component of convertible bonds \$'000	Special reserve \$'000	Accumulated losses \$'000	
<b>At 1 January 2012</b>	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)
<b>At 30 June 2012</b>	27,046	26,714	538	–	6,026	(68,561)	(8,237)
<b>At 1 January 2013</b>	29,317	27,593	–	–	6,026	(80,334)	(17,398)
Issue of convertible bonds	–	–	–	30,233	–	–	30,233
Loss for the period, representing total comprehensive expense for the period	–	–	–	–	–	(12,188)	(12,188)
<b>At 30 June 2013</b>	29,317	27,593	–	30,233	6,026	(92,522)	647

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in Hong Kong dollars)

	For the six months ended 30 June	
	2013 \$'000	2012 \$'000
Net cash used in operating activities	(11,289)	(7,526)
Net cash (used in) from investing activities	(650)	1
Net cash from financing activities	23,228	8,730
Net increase in cash and cash equivalents	11,289	1,205
Cash and cash equivalents at the beginning of period	79	662
Cash and cash equivalents at the end of period, represented by bank balances and cash	11,368	1,867



# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Organisation and operation

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

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

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

During the six months ended 30 June 2013, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in the business of 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 2013 are consistent with those adopted in preparing the audited consolidated financial statements of the Group for the year ended 31 December 2012.

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 that are relevant for the preparation of the Group’s unaudited condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
Amendments to HKAS 1	Presentation of Items of other Comprehensive Income

Except as described below, the adoption of the above new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these unaudited condensed consolidated financial statements and/or disclosures set out in these unaudited condensed consolidated financial statements.

### ***Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income***

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income” and an “income statement” is renamed as a “statement of profit or loss”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

### ***HKFRS 13 Fair Value Measurement***

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for ‘fair value’ and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in Note 15.

### 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	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Revenue:				
Trading of ceramic products	–	–	–	2,745
Health care services	4,793	4,475	9,124	9,142
Rental income (Note)	–	110	–	219
One-stop value chain services	520	–	520	–
	<b>5,313</b>	4,585	<b>9,644</b>	12,106
Other revenue	2	4	69	6
	<b>5,315</b>	4,589	<b>9,713</b>	12,112

Note:

	For the three months ended 30 June		For the six months ended 30 June	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Gross rental income	–	110	–	219
Less: outgoings (included in cost of sales)	–	(6)	–	(9)
Net rental income	–	104	–	210

#### 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. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, 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 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									
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
REVENUE										
External sales	520	-	9,124	9,142	-	219	-	2,745	9,644	12,106
Segment results	(575)	(607)	1,480	1,285	(46)	186	(347)	36	512	900
Unallocated corporate revenue									86	6
Unallocated corporate expenses									(11,701)	(9,022)
Finance costs									(1,085)	(1,142)
Loss before taxation									(12,188)	(9,258)

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, gain on disposal of subsidiary, fair value loss on financial assets at fair value through profit or loss 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	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Interest on bank loans, wholly repayable within five years	55	52	131	209
Interest on other loans	237	206	438	270
Effective interest expense on convertible bonds	129	–	129	–
Effective interest expense on convertible preference shares	–	63	–	124
Interest on loans from a former fellow subsidiary and a shareholder	142	244	387	539
	<b>563</b>	565	<b>1,085</b>	1,142

## 6. Taxation

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the six months ended 30 June 2013 and 2012. 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, declared or proposed during the interim period (2012: Nil). The Directors have determined that no dividend will be paid in respect of the interim period.

## 8. Loss per share

The calculation of basic loss per share for the three months and six months ended 30 June 2013 and 2012 is based on the respective unaudited consolidated loss for the periods attributable to owners of the Company of approximately HK\$6,980,000 (30 June 2012: HK\$5,130,000) and HK\$12,188,000 (30 June 2012: HK\$9,258,000), and the weighted average of 2,931,730,120 (30 June 2012: 2,584,599,690) ordinary shares of HK\$0.01 each in issue during both the three months and six months ended 30 June 2013.

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

## 9. Plant and equipment

During the six months ended 30 June 2013, the Group had additions to plant and equipment in the amount of approximately HK\$6,000 (2012: Nil).

## 10. Trade and other receivables

	<b>At 30 June 2013 (Unaudited) HK\$'000</b>	At 31 December 2012 (Audited) HK\$'000
Trade receivables, net of allowance for doubtful debts	<b>595</b>	128
Deposit and other receivables	<b>2,191</b>	3,844
Prepayments	<b>310</b>	555
	<b>3,096</b>	4,527

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.

	<b>At 30 June 2013 (Unaudited) HK\$'000</b>	At 31 December 2012 (Audited) HK\$'000
0 to 30 days	<b>73</b>	119
31 to 90 days	<b>522</b>	9
	<b>595</b>	128

## 11. Convertible preference shares

	<b>Number of shares</b>	<b>Amount</b> <i>HK\$'000</i>
<i>Authorised:</i>		
At 31 December 2012 and 30 June 2013, HK\$0.10 each	173,913,043	17,391
<i>Issued and fully paid:</i>		
At 31 December 2012 and 30 June 2013, HK\$0.10 each	Nil	Nil

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

### **(i) Dividend**

No dividend calculated at 3% of par value of the CP Shares was accrued for the six months ended 30 June 2013 (year ended 31 December 2012: HK78,000). No dividends accrued or paid upon the CP Shares until 31 December 2007.

### **(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 HK\$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 was mature on 6 November 2012.

As at 2 November 2012, all the CP shares are converted into ordinary shares, no redemption during the year ended 31 December 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:

	<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 2012	2,477	538	3,015
Interest charge	213	-	213
3% CP dividend	(78)	-	(78)
Conversion during the year	(2,612)	(538)	(3,150)
<b>At 31 December 2012 and 30 June 2013</b>	-	-	-

During the year ended 31 December 2012, 227,130,430 ordinary shares of HK\$0.01 each were issued pursuant to the conversion of the convertible preference shares at a conversion price of HK\$0.0115 per share.



## 12. Share capital

	Number of shares	Amount HK\$'000
<b>Ordinary shares</b>		
<i>Authorised:</i>		
At 31 December 2012, HK\$0.01 each	3,260,869,570	32,609
Increase in authorised share capital ( <i>Note c</i> )	5,000,000,000	50,000
<hr/>		
At 30 June 2013, HK\$0.01 each	8,260,869,570	82,609
<hr/>		
<i>Issued and fully paid:</i>		
At 1 January 2012, HK\$0.01 each	2,424,599,690	24,246
Placing of new shares ( <i>Note a</i> )	280,000,000	2,800
Conversion of convertible preference shares ( <i>Note b</i> )	227,130,430	2,271
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At 31 December 2012 and 30 June 2013, HK\$0.01 each	2,931,730,120	29,317
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*Note:*

- (a) On 12 March 2012, the Company entered into a placing agreement with Top Status. Pursuant to which, Top Status has agreed to place for a placement of 280,000,000 shares of HK\$0.010 each in the Company, at a price of HK\$0.068 per share. 280,000,000 shares of HK\$0.010 each in the Company were allotted to Top Status on 19 March 2012. Details are disclosed in the Company's announcement dated 19 March 2012.

The placement was completed on 19 March 2012. The gross proceeds and net proceeds, after deducting all related expenses, were approximately HK\$19,040,000 and HK\$18,448,000, respectively. The net proceeds were used to repay total outstanding loans and interest payable to Luck Bloom and Top Status totaling approximately HK\$3,700,000. The remaining net proceeds of approximately HK\$14,748,000 were used to provide additional general working capital for the Company. These new shares were issued under the general mandate granted to the directors of the Company at the annual general meeting of the Company held on 6 May 2011 and rank *pari passu* with other shares in issue in all respects.

- (b) During the year ended 31 December 2012, 227,130,430 ordinary shares of HK\$0.01 each were issued pursuant to the conversion of the convertible preference shares at a conversion price of HK\$0.0115 per share and rank *pari passu* with other shares in issue in all respects. Details of which are set out in Note 11.

- (c) At the extraordinary general meeting of the Company held on 29 April 2013, special resolution was passed approving increase in authorised share capital of the Company from HK\$50,000,000 divided into 3,260,869,570 ordinary shares ("Shares") and 173,913,043 convertible preference shares of the Company of HK\$0.01 and HK\$0.10 each respectively to HK\$100,000,000 (divided into 8,260,869,570 Shares and 173,913,043 convertible preference shares of the Company of HK\$0.01 and HK\$0.10 each respectively by the creation of an additional 5,000,000,000 new Shares.

### **13. Convertible bonds**

#### **a) *Convertible bonds A***

On 9 July 2012, the Company issued zero coupon convertible bonds (the "CB-A") in a principal amount of HK\$18,000,000 to Lion Legend Holdings Limited ("Lion Legend") to subscribe the exchangeable bond in a principal amounting to HK\$18,000,000 issued by Lion Legend ("Exchangeable Bond"). The CB-A will mature on 1 April 2013 (the "Maturity Date"). If the Option (details of which are set out in 2012 annual report) is not exercised or if the Option lapses, or if Lion Legend redeems the Exchangeable Bond, the CB-A will be redeemed at par on the Maturity Date. The redemption amount of CB-A shall be fully satisfied and discharged by the transfer or assignment of the Exchangeable Bond to Lion Legend.

Lion Legend is entitled to convert the whole or part of the principal amount of the CB-A into ordinary share capital of the Company on any business day and from time to time, after the issue date up to and including the fifth business day before the Maturity Date, at an initial conversion price of HK\$0.0375 per share. Following an amendment to the Subscription Agreement on 31 October 2012, the Option Exercise Completion Date is amended to 28 December 2012. Details are disclosed in the Company's announcement dated 25 May 2012.

The Company is not entitled to early redeem the CB-A before the Maturity Date. Transaction costs that are directly attributable to issue of CB-A amounting to approximately of HK\$301,000 are allocated to liability and equity components on initial recognition.

The CB-A contains the following components that are required to be separately accounted for:

- (i) Liability component for the CB-A represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the CB-A without conversion option, plus allocated transaction costs. The effective interest rate of the liability component is 17.52%.

- (ii) Equity component represents the difference between the gross proceeds of the issue of the CB-A and the fair values assigned to the liability components less allocated transaction costs.

On 28 December 2012, the Option is lapsed and the Company early redeemed the whole CB-A with a principal amount of HK\$18,000,000 by the transfer or assignment of the Exchangeable Bond to Lion Legend. This gave rise to a debt extinguishment gain of approximately HK\$272,000 for the year ended 31 December 2012.

**b) Convertible bonds B**

Pursuant to the announcement of the Company dated 30 April 2013, all conditions precedent to the subscription agreement dated 22 February 2013 ("Subscription Agreement") have been fulfilled and the subscription was completed on 30 April 2013. At completion of the subscription, the convertible bonds in the principal amount of HK\$34.5 million were issued to the Top Status International Limited (the "Subscriber") in accordance with the terms of the Subscription Agreement ("CB-B").

Subscriber is entitled to convert the whole or part of the principal amount of CB-B into ordinary shares capital of the Company on any business day and from time to time, after the issue date up to and including the fifth business day before 31 December 2016 (the "Maturity Date"), at an initial conversion price of HK\$0.01 per share, subject to adjustment.

Any principal amount of CB-B which has not been redeemed or converted in accordance with the terms and conditions of the Subscription Agreement by the Maturity Date, shall, at the absolute discretion of the Company (and regardless of whether or not the Subscriber concerned have requested for conversion of any or all principal amount of CB-B into conversion shares), either be redeemed by the Company on the Maturity Date at a redemption amount equal to 100% of the principal amount of CB-B, or be converted into conversion shares.

The CB-B contains the following components that are required to be separately accounted for:

- (i) Liability component for the CB-B represents the present value of the contractually determined stream of future cash flows discounted at the rate of interest at the date of issue with reference to the market rate for instruments of comparable credit status taking into account the credit risk of the Company as well as the amount of the CB-B without conversion option, plus allocated transaction costs. The effective interest rate of the liability component is 19.49%.
- (ii) Equity component represents the difference between the gross proceeds of the issue of the CB-B and the fair values assigned to the liability components less allocated transaction costs.

**c) Movements of the CB-A and CB-B:**

The movements of the CB-A and CB-B are set out below:

	<b>Liability component</b> <i>HK\$'000</i>	<b>Equity component</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 9 July 2012	16,009	986	16,995
Effective interest expense	1,266	–	1,266
Gain on early redemption of CB-A	(272)	–	(272)
Early redemption of CB-A	(17,003)	(971)	(17,974)
Transfer to accumulated losses upon early redemption of CB-A	–	(15)	(15)
At 31 December 2012	–	–	–
Issue of CB-B	4,267	30,233	34,500
Effective interest expense	129	–	129
At 30 June 2013	4,396	30,233	34,629

**14. Operating lease commitment**

***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:

	<b>At 30 June 2013 (Unaudited) HK\$'000</b>	At 31 December 2012 (Audited) HK\$'000
Within one year	<b>6,954</b>	8,424
In the second to the fifth year inclusive	<b>5,417</b>	9,873
	<b>12,371</b>	18,297

*The Group as lessor*

At the end of the reporting period, the Group had not contracted with tenants for the future minimum lease.

## 15. Fair value measurements of financial instruments

### ***Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis***

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at 30 June 2013	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Listed equity securities classified as financial assets at fair value through profit or loss in the statement of financial position	Listed equity securities in Hong Kong – Food and beverage industry HK\$630,000	Level 1	Quoted prices in active market	N/A	N/A

During the six months ended 30 June 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

## **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\$9,124,000 (six months ended 30 June 2012: HK\$9,142,000), representing a slight decrease of approximately 0.20% as compared with the last corresponding period. The slightly decrease in revenue should be due to unstable economic environment affecting consumer spending.

The Board is putting more resources on marketing and promotion, and expanding the beauty, facial and skincare services in order to broaden the customer base so as to boost the revenue and increase profit margin.

#### **Trading of Ceramic Products**

The trading of ceramic products has not generated any revenue for the Reporting Period (six months ended 30 June 2012: approximately HK\$2,745,000).

During the Reporting Period, due to the slowdown of the domestic economic growth, the industry has been hit by the decrease in the product demand. In the year of 2013, it is expected that the market condition of this industry will not significantly improve. Facing with the adverse factors, the Group is re-considering the market situation.

#### **Property Investment**

At 30 June 2013, the Group held properties in Hong Kong for investment purpose amounted to approximately HK\$7,420,000 (31 December 2012: HK\$7,420,000).

During the Reporting Period, no revenue has been generated in this business segment (six months ended 30 June 2012: approximately HK\$219,000).

The Group has been proactively identifying reliable tenants for enhancing its source of rental income. Given increase in demand of the property market in Hong Kong, the Board is confident that the rental income will continue to benefit from the growth trend.

### **One-stop Value Chain Services**

The IT and telecommunications business of the Group reported a revenue of approximately HK\$520,000 (six months ended 30 June 2012: Nil). This was mainly due to global economic downturns, fast changing technologies of the industry and keen competition among players in the PRC.

The keen competition in the manufacturing market in Hong Kong and the PRC always results in low profit margin. This together with the escalating operating costs and the need for capital expenditure pose high threats to the profitability and viability of the existing business. Therefore, the operation of this business segment has not generated any revenue for the three months ended 31 March 2013. The Group will continue to take further steps to explore more business opportunities in this business segment.

## **FINANCIAL REVIEW**

During the Reporting Period, the Group recorded an unaudited revenue of approximately HK\$9,644,000 (six months ended 30 June 2012: HK\$12,106,000), representing a decrease of approximately 20.34% as compared with the last corresponding period. This decrease was mainly due to no revenue generated from trading of ceramic product.

Cost of sales for the Reporting Period amounted to approximately HK\$6,141,000 (six months ended 30 June 2012: HK\$8,194,000), representing a decrease of approximately 25.05% as compared with the last corresponding period. This decrease was in line with the decrease in revenue for the period.

Administrative expenses for the Reporting Period amounted to approximately HK\$14,717,000 (six months ended 30 June 2012: HK\$12,034,000), representing an increase of approximately 22.30% 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\$1,085,000 (six months ended 30 June 2012: HK\$1,142,000), representing a decrease of approximately 4.99% as compared with the last corresponding period. The decrease was mainly due to decrease in repayment of loan amounts as compared with the last corresponding period.

The Group recorded a loss attributable to owners of the Company for the Reporting Period of approximately HK\$12,188,000 (six months ended 30 June 2012: HK\$9,258,000). As a result, the basic loss per share of the Company increased from HK0.36 cent for the six months ended 30 June 2012 to HK0.42 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 2013, the bank balances and cash of the Group was approximately HK\$11,368,000 (31 December 2012: approximately HK\$79,000).

At 30 June 2013, the net assets of the Group was approximately HK\$647,000 (31 December 2012: net liabilities of HK\$17,398,000) and the net current assets was approximately HK\$10,556,000 (31 December 2012: net current liabilities of HK\$25,292,000).

### **Gearing Ratio**

At 30 June 2013, the total liabilities of the Group amounted to approximately HK\$23,434,000 (31 December 2012: HK\$31,098,000), 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 bonds of the Company. All of these borrowings are denominated in Hong Kong dollars.

At 30 June 2013, the Group had total assets of approximately HK\$24,081,000 (31 December 2012: HK\$13,700,000). The gearing ratio of the Group, expressed as the ratio of total liabilities to total assets, decrease to 0.97 as at 30 June 2013 (31 December 2012: 2.27).

### **Segmental Information**

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

### **Capital Structure**

As at 30 June 2013, the issued ordinary share capital with an aggregate nominal value of HK\$29,317,301.20 is divided into 2,931,730,120 ordinary shares of HK\$0.01 each ("Share(s)") (31 December 2012: HK\$29,317,301.20 divided into 2,931,730,120 Shares).



## **Fund Raising Activities**

### ***Issue of Convertible Bonds***

On 22 February 2013, the Company and Top Status International Limited (“Top Status”) entered into a subscription agreement (the “Subscription Agreement”) in connection with the issue by the Company of convertible bonds to Top Status in the aggregate principal amount of HK\$34.5 million (the “Convertible Bonds”). Top Status was a wholly-owned subsidiary of China Railway Logistics Limited, the ultimate substantial shareholder of the Company and thus, a connected person of the Company and the Subscription Agreement constituted a connected transaction under the GEM Listing Rules. Upon full conversion of the Convertible Bonds, up to a maximum of 3,450,000,000 new conversion shares shall be issued.

The estimated net proceeds from the Subscription will be approximately HK\$33.72 million (after deducting all relevant expenses), representing a net conversion price of approximately HK\$0.0098 per conversion share. The Board intends to apply the net proceeds from the Subscription (i) of which HK\$11 million to set off against part of the Outstanding Indebtedness; (ii) of which approximately HK\$0.8 million will be paid for other loan interests of the Group; and (iii) the balance of which in the amount of approximately HK\$21.92 million will be utilised as general working capital of the Company, including but not limited to, the overheads of the Group, such as salaries and allowances, rental and building management fee.

In order to facilitate the possible issue of the conversion shares and provide for future expansion in the share capital of the Company, the Directors proposed that the authorised share capital of the Company be increased from HK\$50,000,000 to HK\$100,000,000 (divided into 8,260,869,570 ordinary shares and 173,913,043 convertible preference shares of the Company at par values of HK\$0.01 and HK\$0.10 respectively) by the creation of an additional 5,000,000,000 new ordinary shares.

On 29 April 2013, 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 allot and issue such number of Conversion Shares and authorize any 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 and proposed increase in authorized share capital were 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 30 April 2013. At completion, the convertible bonds in the principal amount of HK\$34.5 million were issued to the Subscriber in accordance with the terms of the Subscription Agreement.

For details, please refer to the Company's announcements dated 22 February 2013, 29 April 2013 and 30 April 2013 and circular dated 12 April 2013 respectively.

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

As at 30 June 2013, investment properties with a carrying value of approximately HK\$7,420,000 (31 December 2012: approximately HK\$7,420,000) was pledged as security for the banking facilities granted to the Group.

### **Contingent Liabilities**

As at 30 June 2013, the Group did not have any material contingent liabilities (31 December 2012: Nil).

### **Capital Commitments**

As at 30 June 2013, the Group did not have any significant capital commitment (31 December 2012: 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.

### **Significant Investments and Acquisitions**

Save as disclosed above, the Group did not possess any significant investment, material acquisitions or disposal of subsidiaries or associated companies during the Reporting Period.

## **OUTLOOK**

For the health care services business, the Board continues its marketing and promotion efforts to broaden the customer base. Together with the increasing number of individual travelers from PRC, the Board believes that the income from this business segment will continue to benefit from this growth trend.

The Group believes the IT and telecommunications market still has ample growth potential despite the difficult market environment and competitive landscape. The Group will continue to take appropriate steps to align its investment with objectives and review its business portfolio where it is appropriate to increase its shareholder value.

The Group continues seeking investment opportunities and focuses on long-term business development. It also aims at diversifying the business portfolio by exploring the feasibility of expansion into other business segments. The Group continued its principal businesses of health care services, property investment and provision of one-stop value chain services to telecommunications, information technology and advanced manufacturing industries. The Group will also keep evaluating opportunities to acquire new businesses with a view to diversify its source of revenue from different business segments and geographical locations.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2013, the Group had 17 full-time employees in Hong Kong (31 December 2012: 16). Staff costs for the Reporting Period, including Directors' emoluments, were approximately HK\$3,345,000 (six months ended 30 June 2012: approximately HK\$2,683,000).

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 2013, 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 2013, 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 (Note 1)	Number of underlying Shares	Approximate percentage of the issued share capital (Note 1)
China Railway Logistics Limited	Interest of controlled corporation	737,906,430 (L) (Note 2)	25.17%	3,450,000,000 (Note 2 and 3)	117.68%
Top Status International Limited	Beneficial owner	737,906,430 (L) (Note 2)	25.17%	3,450,000,000 (Note 2 and 3)	117.68%

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

*Notes:*

1. As at 30 June 2013, the Company's issued ordinary share capital was HK\$29,317,301.20 divided into 2,931,730,120 Shares of HK\$0.01 each.
2. Pursuant to the corporate substantial shareholder notices filed by Top Status International Limited ("Top Status") and China Railway Logistics Limited ("China Railway") (Stock code: 8089), 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.
3. Pursuant to a subscription agreement entered into on 22 February 2013 with respect of the subscription of the convertible bonds in principal amount of HK\$34,500,000, the Company had issued convertible bonds in principal amount of HK\$34,500,000 convertible into 3,450,000,000 new shares at conversion price of HK\$0.01 per Share on 30 April 2013.

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 2013 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 2013.

## **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, 9 August 2013

*As at the date of the 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.*