

First Quarterly Report
2017



中國農業生態有限公司
China Eco-Farming Limited

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





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This report, for which the directors of China Eco-Farming Limited (the “Company”) (the “Director(s)”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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



HIGHLIGHTS

Financial Highlights

The Company and its subsidiaries (collectively, the “Group”) recorded an unaudited revenue of approximately HK\$15,449,000 for the three months ended 31 March 2017, representing a decrease of approximately 18.2% as compared with approximately HK\$18,877,000 for the corresponding period in 2016.

The unaudited loss for the period attributable to owners of the Company for the three months ended 31 March 2017 was approximately HK\$25,848,000 (three months ended 31 March 2016: HK\$11,317,000). The basic loss per share of the Company for the three months ended 31 March 2017 was HK0.43 cents (three months ended 31 March 2016: HK0.25 cents).

The board of Directors of the Company (the “Board”) does not recommend any payment of interim dividend for the three months ended 31 March 2017.

UNAUDITED CONDENSED CONSOLIDATED QUARTERLY RESULTS

The Board announces the unaudited condensed consolidated results of the Group for the three months ended 31 March 2017 together with the comparative figures for the corresponding period in 2016.

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

(Expressed in Hong Kong dollars)

		For the three months ended 31 March	
	NOTES	2017 \$'000	2016 \$'000 (Restated)
Revenue	3	15,449	18,877
Cost of sales		(11,985)	(16,350)
Gross profit		3,464	2,527
Other revenue	3	86	333
Selling and distribution expenses		(402)	–
Administrative expenses		(15,153)	(10,942)
Share of result of associates		219	(345)
Finance costs	4	(2,669)	(1,615)
Decrease in fair value of financial asset at fair value through profit or loss		(6,171)	(3,398)
Loss on disposal of financial asset at fair value through profit or loss		(7,550)	–
Loss before taxation		(28,176)	(13,440)
Taxation	5	2,079	1,508
Loss for the period		(26,097)	(11,932)



**For the three months
ended 31 March**

	<i>NOTE</i>	2017 \$'000	2016 \$'000 (Restated)
Other comprehensive income (expense):			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair value change of available-for-sale investments		(804)	–
Exchange differences on translation of foreign operation		(52)	3
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Other comprehensive income (expense) for the period		(856)	3
Total comprehensive expense for the period		(26,953)	(11,929)
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Loss for the period attributable to:			
Owners of the Company		(25,848)	(11,317)
Non-controlling interests		(249)	(615)
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		(26,097)	(11,932)
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Total comprehensive expense for the period attributable to:			
Owners of the Company		(26,756)	(11,191)
Non-controlling interests		(197)	(738)
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		(26,953)	(11,929)
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Loss per share	7		
Basic and diluted (<i>HK cents</i>)		(0.43)	(0.25)

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017 (Expressed in Hong Kong dollars)

	Attributable to owners of the Company										
	Share capital \$'000	Share premium \$'000	Equity component of convertible bonds \$'000	Investment revaluation reserve \$'000	Share option reserve \$'000	Translation reserve \$'000	Special reserve \$'000	Accumulated losses \$'000	Total \$'000	Non-controlling interests \$'000	Total \$'000
At 1 January 2016	90,574	304,528	24,918	-	2,300	(8,029)	6,026	(192,687)	227,630	46,235	273,865
Loss for the period	-	-	-	-	-	-	-	(11,317)	(11,317)	(615)	(11,932)
Other comprehensive income for the period:											
Exchange difference arising on translating foreign operation	-	-	-	-	-	126	-	-	126	(123)	3
Total comprehensive expense for the period	-	-	-	-	-	126	-	(11,317)	(11,191)	(738)	(11,929)
Recognition of equity-settled share based payments	-	-	-	-	852	-	-	-	852	-	852
At 31 March 2016	90,574	304,528	24,918	-	3,152	(7,903)	6,026	(204,004)	217,291	45,497	262,788
At 1 January 2017	120,007	398,019	12,847	4,662	13,168	(17,725)	6,026	(218,875)	318,129	43,998	362,127
Loss for the period	-	-	-	-	-	-	-	(25,848)	(25,848)	(249)	(26,097)
Other comprehensive income (expense) for the period:											
Fair value change of available-for-sale investments	-	-	-	(804)	-	-	-	-	(804)	-	(804)
Exchange difference arising on translating foreign operations	-	-	-	-	-	(104)	-	-	(104)	52	(52)
Other comprehensive expense for the period	-	-	-	(804)	-	(104)	-	-	(908)	52	(856)
Total comprehensive expense for the period	-	-	-	(804)	-	(104)	-	(25,848)	(26,756)	(197)	(26,953)
Recognition of equity-settled share based payments	-	-	-	-	3,011	-	-	-	3,011	-	3,011
Derecognition of equity component of convertible bond upon maturity	-	-	(2,954)	-	-	-	-	2,954	-	-	-
At 31 March 2017	120,007	398,019	9,893	3,858	16,179	(17,829)	6,026	(241,769)	294,384	43,801	338,185



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.

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

The addresses of registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is Suites 2303-06, 23/F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The directors of the Company do not consider any company to be the ultimate holding company or parent company of the Company.

During the three months ended 31 March 2017, the Company and its subsidiaries (collectively referred to as the “Group”) were principally engaged in the business of trading of grocery food products, trading of consumables and agricultural products, property investment, provision of money lending services and one-stop value chain services.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company. Other than those subsidiaries established in the People’s Republic of China (the “PRC”) and incorporated in Taiwan whose functional currencies are Renminbi (“RMB”) and New Taiwan dollars (“NTD”) respectively, the functional currency of the Company and its subsidiaries is HK\$.

2. Principal accounting policies and basis of preparation

The unaudited condensed 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, certain financial instruments and available-for-sale investments that are measured at fair values.

The principal accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial results for the three months ended 31 March 2017 are consistent with those adopted in preparing the audited consolidated financial statements of the Group for the year ended 31 December 2016 except for the following amendments and interpretation ("New HKFRSs") issued by HKICPA which are or shall be in effect.

HKFRS 9 (2014)	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective date not yet been determined.

The adoption of the above New HKFRSs in the current 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 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 31 March	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited and restated)
Revenue:		
Trading of grocery food products	9,276	3,097
Trading of consumables and agricultural products	1,236	564
Rental income (note (i))	807	912
Provision of money lending services (note (ii))	1,365	1,047
One-stop value chain services	2,765	13,257
	15,449	18,877
Other revenue (note (iii))	86	333
	15,535	19,210

Note:

(i) Rental income

	For the three months ended 31 March	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Gross rental income	807	912
Less: outgoings (included in cost of sales)	(20)	(189)
Net rental income	787	723

(ii) Provision of money lending services

Included in interest income from provision of money lending services was interest income of approximately HK\$ 47,000 for the three months ended 31 March 2017 (three months ended 31 March 2016: nil), charged to Mr. Au Yeung Po Leung ("Mr. Au Yeung"), an executive director of the Company, for aggregate loan amount of HK\$2,400,000 extended in December 2016. The loans were interest-bearing with interest rate of 8% per annum, secured by the non-listed shares and repayable by 31 December 2017.

(iii) Other revenue

	For the three months ended 31 March	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited and restated)
Interest income (<i>note (iv)</i>)	80	2
Sundry income	6	331
	86	333

(iv) Interest income

Included in interest income are approximately HK\$79,000 for the three months ended 31 March 2017 (three months ended 31 March 2016: nil), charged to Zhonghe Huaxia (Beijing) Investment Consulting Co., Ltd. ("Beijing HX") for a loan amount of approximately HK\$2,700,000 granted on 1 September 2016. The loan was interest-bearing with interest rate of 12% per annum, unsecured and repayable by 31 May 2017. Mr. Au Yeung holds 15% interest in Beijing HX and Beijing HX are treated as associate in the consolidated financial statements of the Company.

4. Finance costs

	For the three months ended 31 March	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Interest on bank borrowings	153	43
Interest on loans payable (<i>note (i)</i>)	92	–
Interest on margin loans payable	428	–
Effective interest expense on convertible bonds	1,996	1,572
	2,669	1,615

Note:

(i) Interest on loans payable

Included in interest on loans payable were interest expenses of approximately HK\$13,000 for the three months ended 31 March 2017 (three months ended 31 March 2016: nil), payable to Mr. So David Tat Man, an executive director of the Company, for aggregate loan amount of HK\$2,000,000 granted in January 2017. The loan was interest-bearing with interest rate of 4% per annum and fully repaid by 31 March 2017.

5. Taxation

	For the three months ended 31 March	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current tax	172	–
Deferred tax	(2,251)	(1,508)
Income tax credit recognised in profit or loss	(2,079)	(1,508)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the three months ended 31 March 2017 and 2016. No Hong Kong Profits Tax is provided for the three months ended 31 March 2016 as the Group did not have any assessable profit subject to Hong Kong Profits Tax.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. No EIT is provided for the three months ended 31 March 2016 as the Group did not derive any assessable profit subject to EIT.

No Taiwan Profit-Seeking Enterprise Income Tax (17%) has been provided since there were no assessable profit for both periods.

6. Dividend

The Board does not recommend any payment of interim dividend for the three months ended 31 March 2017 (2016: Nil).

7. Loss per share

The calculation of the basic loss per share for the three months ended 31 March 2017 and 2016 is based on the respective unaudited consolidated loss for the period attributable to owners of the Company of approximately HK\$25,848,000 (2016: HK\$11,317,000) and the weighted average of 6,000,341,424 (2016: 4,528,705,060) ordinary shares of HK\$0.02 each in issue during the three months ended 31 March 2017.

Diluted loss per share is same as basic loss per share for the periods ended 31 March 2017 and 31 March 2016. The computation of diluted loss per share does not assume the conversion/exercise of Company's outstanding convertible bonds and options to subscribe for additional shares since their conversion/exercise would result in an anti-dilutive effect on the basic loss per share.

8. Comparative figures

Revenue from provision of money lending services were previously included in other revenue in the consolidated statement of profit or loss and other comprehensive income.

To conform to current years' presentation, the above amount for the period ended 31 March 2016 have been included in revenue in the consolidated statement of profit or loss and other comprehensive income to facilitate a better presentation.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

During the three months ended 31 March 2017 (the "Reporting Period"), the Group has been principally engaged in the business of trading of grocery food products, trading of consumables and agricultural products, property investment, provision of money lending services and one-stop value chain services.

Trading of Grocery Food Products

The Group's trading of grocery food products segment consisted of distribution (i) in the catering channel in Hong Kong for "Mengniu" liquid milk and pasteurized dairy products, including but not limited to pure milk, low fat high calcium milk, "Milk Deluxe", "Fruit Milk Drink", and "Yoyi C" under the "Mengniu" brand; and (ii) in peanut oil, corn oil and canola oil under the "Jinlongyu" brand via supermarkets, convenience stores and small-scale stores in Hong Kong. The Group is also the sole and exclusive distributor for the sale and distribution of ramen and udon products under the brand of "Nittin" (日丁) in Hong Kong, Macau and Taiwan.

During the Reporting Period, the segment reported a revenue of approximately HK\$9,276,000 (three months ended 31 March 2016: HK\$3,097,000), representing an increase of approximately 199.5% as compared with the last corresponding period. The Group sees the product demands in steady growth, thus expects this segment will continue to contribute solid results to the Group.

Trading of Consumables and Agricultural Products

During the Reporting Period, the trading of consumables and agricultural products segment generated a revenue of approximately HK\$1,236,000 (three months ended 31 March 2016: HK\$564,000), representing an increase of approximately 119.1% as compared with the last corresponding period.

The competition in this business segment is still very keen and the Group is cautious in its development and will compare its profitability with other business opportunities carefully.

Property Investment

During the Reporting Period, this business segment reported a revenue of approximately HK\$807,000 (three months ended 31 March 2016: HK\$912,000), representing a decrease of approximately 11.5% as compared with the last corresponding period. At 31 March 2017, the Group held properties in the People's Republic of China ("PRC"), Taiwan and Hong Kong for investment purpose amounted to approximately HK\$155,457,000 (31 December 2016: HK\$174,850,000).

The Shenzhen property market is still making record high every day, allowing the Group realising an investment property at a decent gain during the Reporting Period. While Taiwan and Hong Kong property markets are also on the upward trends, the Group continues to seek optimising its investment properties portfolio.

Provision of money lending services

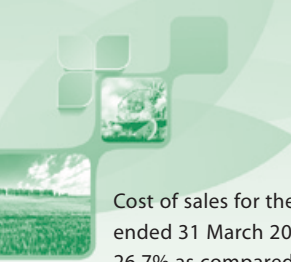
During the Reporting Period, this segment reported a revenue of approximately HK\$1,365,000 (three months ended 31 March 2016: HK\$1,047,000), representing an increase of approximately 30.4% as compared with the last corresponding period. The Group continues to maintain sound credit control policy when advancing loans to customers.

One-stop Value Chain Services

During the Reporting Period, the one-stop value chain business of the Group generated a revenue of approximately HK\$2,765,000 (three months ended 31 March 2016: HK\$13,257,000), representing a decrease of approximately 79.1% as compared with the last corresponding period. The decrease in revenue continued to reflect the weakened demand from customer side mainly in Europe. Unless sign of turnaround appears in future, the Group expects to see this segment gradually reduces and more resources will be allocated to other segments in the Group.

FINANCIAL REVIEW

During the Reporting Period, the Group recorded a revenue of approximately HK\$15,449,000 (three months ended 31 March 2016: approximately HK\$18,877,000), representing a decrease of approximately 18.2% as compared with the last corresponding period. The expansion of trading of grocery food products and provision of money lending services were nearly offset by the retardation of revenue from one-stop value chain service.



Cost of sales for the Reporting Period amounted to approximately HK\$11,985,000 (three months ended 31 March 2016: approximately HK\$16,350,000), representing a decrease of approximately 26.7% as compared with the last corresponding period. The decrease of cost of sales was due to the improvement of gross profit margin from trading of grocery food products.

Administrative expenses for the Reporting Period amounted to approximately HK\$15,153,000 (three months ended 31 March 2016: approximately HK\$10,942,000), representing an increase of approximately 38.5% as compared with the last corresponding period. This increase was mainly due to increase of share based payment of approximately HK\$2,157,000, increase of directors remuneration and staff salary (excluding share based payments) of approximately HK\$345,000.

Finance costs for the Reporting Period was approximately HK\$2,669,000 (three months ended 31 March 2016: approximately HK\$1,615,000), representing an increase of approximately 65.3% as compared with the last corresponding period. The increase was mainly due to the increase in effective interest expenses on convertible bonds as compared with the last corresponding period and increase of interest paid and payable for the secured bank loans and other loans.

The Group recorded a loss attributable to owners of the Company for the Reporting Period of approximately HK\$25,848,000 (three months ended 31 March 2016: approximately HK\$11,317,000). The basic loss per share of the Company for the Reporting Period was HK0.43 cents (three months ended 31 March 2016: HK0.25 cents).

Liquidity and Financial Resources

During the Reporting Period, the Group financed its business operations mainly with its internally generated resources and borrowings. At 31 March 2017, the cash and cash equivalents of the Group was approximately HK\$12,430,000 (31 December 2016: approximately HK\$22,298,000).

At 31 March 2017, the net assets of the Group was approximately HK\$338,185,000 (31 December 2016: approximately HK\$362,127,000) and the net current assets was approximately HK\$68,996,000 (31 December 2016: approximately HK\$94,681,000).

Capital Structure

As at 31 March 2017, the Company's issued ordinary share capital was HK\$120,006,828.48 divided into 6,000,341,424 ordinary shares of HK\$0.02 each ("Share(s)") (31 December 2016: HK\$120,006,828.48 divided into 6,000,341,424 Shares).

Fund Raising Activities

Issue of Convertible Bonds II as a consideration of an acquisition

On 13 December 2013, Skyline Top Limited (“Skyline Top”), a wholly-owned subsidiary of the Company and Mr. So Pan entered into a sale and purchase agreement, pursuant to which (i) Mr. So Pan has agreed to sell to Skyline Top, and Skyline Top has agreed to purchase from Mr. So Pan the sale shares of Konson Global Investments Limited; and (ii) Mr. So Pan has agreed to assign to Skyline Top, and Skyline Top has agreed to accept the assignment of, the sale loan at an aggregated consideration of HK\$40,000,000, of which: (i) HK\$20,000,000 shall be satisfied by Skyline Top by cheque or cashier order upon the completion; and (ii) HK\$20,000,000 shall be satisfied by the Skyline Top’s procuring of the issue of the convertible bonds (“Convertible Bonds II”) at the conversion price of HK\$0.17 (*note*) per conversion share by the Company to Mr. So Pan upon completion.

Upon exercise of conversion rights attaching to the Convertible Bonds II, 117,647,058 (*note*) new shares shall be issued.

The completion of the acquisition involving the issue of convertible bonds as a consideration took place on 31 March 2014.

Included in the audited financial statements of the Property Investment Subsidiary (as defined in the Company’s circular dated 19 February 2014) dated 28 April 2017 was the profit before tax of the Property Investment Subsidiary for the period commencing from the Placing Completion Date (as defined in the Company’s circular dated 19 February 2014) up to 31 December 2016 of HK\$46,541,792 which was audited by the auditor of the Company. As a result, principal portion of Convertible Bond II amounted to HK\$8,364,552 was cancelled by the Company pursuant to the terms and conditions of the Convertible Bond II.

Further details of the issue of convertible bonds as a consideration of an acquisition are set out in the announcements of the Company dated 13 December 2013, 7 March 2014 and 31 March 2014 and the circular of the Company dated 19 February 2014.

Note: On 2 July 2015, a placing of 629,000,000 new shares of the Company was completed and pursuant to the terms and conditions of the bond instruments of the Convertible Bonds, the conversion price was revised from HK\$0.188 to HK\$0.17. As a result, number of new shares to be issued upon exercise of conversion attaching to the Convertible Bonds was revised from 106,382,978 to 117,647,058.



Placing of new shares under general mandate - completed

On 15 June 2015, the Company entered into the placing agreement with the placing agent, pursuant to which the Company has conditionally agreed to place, and the placing agent has conditionally agreed to procure, on a best-effort basis, not less than six places for the subscription of up to a maximum of 629,000,000 placing shares at the placing price of HK\$0.20 per placing share under the general mandate. The completion of the placing took place on 2 July 2015, where a total of 629,000,000 placing shares have been successfully placed by the placing agent to not less than six places at the placing price of HK\$0.20 per placing share. The gross proceeds from the placing were approximately HK\$125.8 million and the net proceeds after deducting the placing commission and other relevant expenses were approximately HK\$124.4 million. Further details of the placing are set out in the announcements of the Company dated 16 June 2015 and 2 July 2015.

The net proceeds from placing were used as follows:

Period under review	Aggregate amount used during the period under review	Purpose of usage	Remaining balance of placing proceeds as the last date of the period under review
Since completion of placing on	HK\$55.9 million	General working capital	Nil
2 July 2015 up to and including 31 March 2017	HK\$68.5 million	Future business development	Nil

On 25 April 2016, the Company entered into the placing agreement with the placing agent, pursuant to which the Company has conditionally agreed to place, and the placing agent has conditionally agreed to procure, on a best-effort basis, not less than six places for the subscription of up to a maximum of 420,000,000 placing shares at the placing price of HK\$0.10 per placing share under the general mandate. The completion of the placing took place on 3 May 2016, where a total of 420,000,000 placing shares have been successfully placed by the placing agent to not less than six places at the placing price of HK\$0.10 per placing share. The gross proceeds from the placing were approximately HK\$42.0 million and the net proceeds after deducting the placing commission and other relevant expenses were approximately HK\$41.5 million. Further details of the placing are set out in the announcements of the Company dated 25 April 2016 and 3 May 2016.


The net proceeds from placing were used as follows:

Period under review	Aggregate amount used during the period under review	Purpose of usage	Remaining balance of placing proceeds as the last date of the period under review
Since completion of placing on 3 May 2016 up to and including 31 March 2017	HK\$41.5 million	General working capital	Nil

Issue of Convertible Bond III & Convertible Bond IV as a consideration of an acquisition

On 28 May 2015, Skyline Top Limited and Yardley Wealth Management Limited (“Yardley”) became shareholders (the “JV Partners”) of Delightful Hope Limited (the “JV Company”) for the purpose of the proposed acquisition. The JV Company is owned as to 50% by each of the JV Partners. The directors of the Company considered the JV Company is the subsidiary of the Company in accordance with HKFRS10 Consolidated Financial Statement.

Upon formation of JV Company, the JV Partners have agreed to make provision for the management and administration of the JV Company’s affairs, and set out their respective obligations and rights on the terms and conditions set in the shareholders’ agreement (the “Shareholders’ Agreement”).



On 29 May 2015, the Company, the JV Company, Yardley and Rich Best Asia Limited (the "Vendor") entered into the sale and purchase agreement (the "Sale and Purchase Agreement") pursuant to which (i) the Vendor has agreed to sell and the JV Company has agreed to purchase entire equity interest in China Smart Asia Limited, a subsidiary of Chinese Strategic Holdings Limited ("Chinese Strategic"), which the shares of Chinese Strategic are listed on the GEM of the Stock Exchange (stock code: 8089); and (ii) the Vendor has agreed to assign the JV Company, and the JV Company has agreed to accept the assignment of sale loan at an aggregate consideration of HK\$93,000,000, which shall be settled and discharged by the JV Company in accordance with the time, mode and manner set out under the Sale and Purchase Agreement: (i) forthwith upon the execution of the Sale and Purchase Agreement, the JV Company and Yardley shall jointly and severally pay the sum of HK\$20,000,000 either in cash or by cashier order to Chinese Strategic for and on behalf of the Vendor as deposit (the "Deposit"), and the Deposit shall be applied for partial payment of the consideration at completion; (ii) the JV Company and Yardley shall jointly and severally pay a further sum of HK\$26,500,000 either in cash or by cashier order to Chinese Strategic for and on behalf of the Vendor for partial payment of the balance of the consideration at completion; and (iii) the remaining balance of the consideration in the sum of HK\$46,500,000 shall be settled and discharged by the Company's issuance to the Vendor (or any nominee of the Vendor) (i) the convertible bonds ("Convertible Bond-III") in the principal amount of HK\$23,000,000; and (ii) the convertible bonds ("Convertible Bond-IV") in the principal amount of HK\$23,500,000 at completion.

Upon exercise of conversion rights attaching to the Convertible Bond-III & Convertible Bond-IV, 186,000,000 new shares shall be issued.

The completion of the acquisition involving the issue of Convertible Bond-III & Convertible Bond-IV as a part of the consideration took place on 20 August 2015.

Further details of the issue of convertible bonds as a consideration of an acquisition are set out in the announcements of the Company dated 29 May 2015, 20 August 2015 and the circular of the Company dated 27 July 2015.

Convertible Bond-III expired on 31 March 2017 and subsequently the Company received a redemption notice from the Convertible Bond-III holder for the principal amount of HK\$23,000,000. As at the date of this report, the amount remained outstanding and the Company is in negotiation with the Convertible Bond-III holder for settlement arrangement.

Charges on Group's Assets

As at 31 March 2017, the Group had charges on one of its investment properties, to obtain a mortgage financing from a bank in Taiwan of approximately HK\$9,541,000 (31 December 2016: HK\$9,181,000). In addition, the Group had charges on another investment property and certain available-for-sale investments to obtain a term loan from a bank in Hong Kong of HK\$10,000,000 (31 December 2016: HK\$10,000,000). Certain investments held for trading have been pledged to brokers' account to obtain a margin loan financing of approximately HK\$20,983,000 (31 December 2016: HK\$16,768,000).

Exposure to Fluctuations in Exchange Rates

All of the Group's assets, liabilities and transactions are mainly denominated either in Hong Kong dollars or Renminbi or New Taiwan 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, Acquisitions and Disposal

Disposal of an investment property

On 3 December 2016, the Group entered into and signed a sale and purchase agreement with an independent third party to dispose of one of the investment properties held by the Group which is located in the PRC with fair value of approximately RMB17,500,000 (equivalent to approximately HK\$19,447,000) as at 31 December 2016. Such property was classified as asset held for sale in the consolidated statement of financial position as at 31 December 2016. The transaction was completed on 14 March 2017 with a gain of disposal between the sale proceed over the cost of acquisition of approximately HK\$4,685,000.

OUTLOOK

Despite the global uncertainties and economic deleveraging on the Mainland continued to present challenging operating conditions, the Group will continue to identify and pursue profitable investment opportunities to expand the Group's sources of revenue and enhance the Group's business prospect.



Trading of grocery food products

During the period under review, the Group continued to provide resources to develop this business segment. The management of Huge Famous Corporation Limited has been closely monitoring the performance improvement plan.

The management is optimistic on the strategic alliance with Chan Kee Holdings Limited (“Chan Kee”). The Group is also of the view that the leveraging with Chan Kee’s strong distribution channel with retailers including giant chain supermarkets creates synergy effect and opportunities on potential grocery food products.

Trading of consumables and agricultural products

The competition of this business segment is still very keen. Nevertheless, the Group will spend necessary resources in maintenance and development of products and markets.

Property investment

During the period under review, one of the investment properties situated in PRC was disposed (completion took place on 14 March 2017). The Directors consider the disposal represents a good opportunity for the Company to realise its investments at a profit as well as strengthening the Group’s cash position. The Group continues to seek optimising its investment portfolio coupled with improving rental yields.

Provision of money lending services

The Group recognised the importance to maintain sound credit control policy when advancing loans to the customers. During the period under review, several loan agreements have been renewed in compliance with the Group’s assessment procedures. The Group shall continue to locate different financial resources to maintain our cost of funding at a justifiable level.



One-stop Value Chain Services

The decreasing trend of products demand continued in the first quarter of 2017. The Group remained cautious in developing this business segment and expects to reallocate more resources to other segments of the Group.

The equity market was still volatile for the first quarter of 2017 and added on uncertainties on the Group's overall performance. The Group will keep adopting a prudent investment approach with the aim to improve the capital usage efficiency and generate additional investment returns on the idle funds of the Group.

The Group shall continue to identify investment opportunities and will select projects which align with the Group's investment strategy and with the ultimate goal of maximising the shareholders' value.

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 31 March 2017, the interests and short positions of the Directors or the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors, were as follows:

Long position in the underlying shares in respect of the share options of the Company (which were regarded as unlisted physically settled equity derivatives) granted under the share option scheme adopted by the Company on 6 May 2011:

Name	Date of grant	Exercise price per Share (HK\$)	Exercisable period	Outstanding as at 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 March 2017
So David Tat Man	13 July 2015	0.212	14 July 2016 – 13 July 2017	12,825,000	-	-	-	12,825,000
			14 July 2017 – 13 July 2018	21,375,000	-	-	-	21,375,000
	12 September 2016	0.11	13 September 2016 – 12 September 2019	15,600,000	-	-	-	15,600,000
			13 September 2017 – 12 September 2019	15,600,000	-	-	-	15,600,000
			13 September 2018 – 12 September 2019	20,800,000	-	-	-	20,800,000
Lai Yick Fung	13 July 2015	0.212	14 July 2016 – 13 July 2017	3,000,000	-	-	-	3,000,000
			14 July 2017 – 13 July 2018	5,000,000	-	-	-	5,000,000
12 September 2016		0.11	13 September 2016 – 12 September 2019	12,000,000	-	-	-	12,000,000
			13 September 2017 – 12 September 2019	12,000,000	-	-	-	12,000,000
			13 September 2018 – 12 September 2019	16,000,000	-	-	-	16,000,000
Au Yeung Po Leung	12 September 2016	0.11	13 September 2016 – 12 September 2019	12,000,000	-	-	-	12,000,000
			13 September 2017 – 12 September 2019	12,000,000	-	-	-	12,000,000
			13 September 2018 – 12 September 2019	16,000,000	-	-	-	16,000,000

Name	Date of grant	Exercise price per Share (HK\$)	Exercisable period	Outstanding as at 1 January 2017	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 31 March 2017
Ng Cheuk Fan, Keith	13 July 2015	0.212	14 July 2016 – 13 July 2017	1,200,000	-	-	-	1,200,000
			14 July 2017 – 13 July 2018	2,000,000	-	-	-	2,000,000
	12 September 2016	0.11	13 September 2016 – 12 September 2019	12,000,000	-	-	-	12,000,000
Yick Ting Fai, Jeffrey	13 July 2015	0.212	14 July 2016 – 13 July 2017	1,200,000	-	-	-	1,200,000
			14 July 2017 – 13 July 2018	2,000,000	-	-	-	2,000,000
	12 September 2016	0.11	13 September 2016 – 12 September 2019	1,500,000	-	-	-	1,500,000
Zhang Min	13 July 2015	0.212	14 July 2016 – 13 July 2017	1,200,000	-	-	-	1,200,000
			14 July 2017 – 13 July 2018	2,000,000	-	-	-	2,000,000
	12 September 2016	0.11	13 September 2016 – 12 September 2019	1,500,000	-	-	-	1,500,000
Yuen Wai Man	13 July 2015	0.212	14 July 2016 – 13 July 2017	1,200,000	-	-	-	1,200,000
			14 July 2017 – 13 July 2018	2,000,000	-	-	-	2,000,000
	12 September 2016	0.11	13 September 2016 – 12 September 2019	1,500,000	-	-	-	1,500,000
Yuen Wai Man	13 July 2015	0.212	14 July 2016 – 13 July 2017	1,200,000	-	-	-	1,200,000
			14 July 2017 – 13 July 2018	2,000,000	-	-	-	2,000,000
	12 September 2016	0.11	13 September 2016 – 12 September 2019	1,500,000	-	-	-	1,500,000
Yuen Wai Man	13 July 2015	0.212	14 July 2016 – 13 July 2017	1,200,000	-	-	-	1,200,000
			14 July 2017 – 13 July 2018	2,000,000	-	-	-	2,000,000
	12 September 2016	0.11	13 September 2016 – 12 September 2019	1,500,000	-	-	-	1,500,000
Yuen Wai Man	13 July 2015	0.212	14 July 2016 – 13 July 2017	1,200,000	-	-	-	1,200,000
			14 July 2017 – 13 July 2018	2,000,000	-	-	-	2,000,000
	12 September 2016	0.11	13 September 2016 – 12 September 2019	1,500,000	-	-	-	1,500,000



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.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware of and having made due enquiries, as at 31 March 2017, the following parties, other than the Directors or chief executive of the Company, had interests or short positions directly or indirectly in the shares or underlying shares of the Company disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

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

Name of shareholders	Number of shares of the Company (Personal Interests)	Number of shares of the Company (Corporate Interests)	Total	Approximate percentage of the issued share capital (Note 1)
Yardley Finance Limited (Note 2)	–	500,000,000	500,000,000	8.33%
Chan Kin Sun (Note 2)	–	500,000,000	500,000,000	8.33%
Sun Hui	395,840,000	–	395,840,000	6.59%

Notes:

1. As at 31 March 2017, the Company's issued ordinary share capital was HK\$120,006,828.48 divided into 6,000,341,424 Shares of HK\$0.02 each.
2. These shares were held by Yardley Finance Limited ("Yardley Finance"), a company incorporated in Hong Kong with limited liability. Since Yardley Finance is wholly-owned by Chan Kin Sun, Chan Kin Sun was 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 31 March 2017 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

COMPETING INTERESTS

None of the Directors or controlling shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) had any business or interest that compete with the business of the Group or has or may have any other conflict of interest with the Group during the Reporting Period.

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 the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group. The Audit Committee currently comprises three independent non-executive Directors; namely, Ms. Yuen Wai Man (Chairman), Mr. Yick Ting Fai, Jeffrey and Mr. Zhang Min.

The unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2017 have been reviewed by the members of the Audit Committee.

By Order of the Board
China Eco-Farming Limited
So David Tat Man
Executive Director

Hong Kong, 10 May 2017

As at the date of this report, the executive Directors are Mr. So David Tat Man, Mr. Lai Yick Fung, Mr. Au Yeung Po Leung and Mr. Ng Cheuk Fan, Keith; and the independent non-executive Directors are Mr. Yick Ting Fai, Jeffrey, Mr. Zhang Min and Ms. Yuen Wai Man.