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中國農業生態有限公司
China Eco-Farming Limited

(Continued into Bermuda with limited liability)

(Stock Code: 8166)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO (I) THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021; AND (II) THE MONEY LENDING BUSINESS OF THE GROUP

References are made to (i) the unaudited annual results announcement of China Eco-Farming Limited (the "**Company**", together with its subsidiaries, collectively to as the "**Group**") dated 30 March 2022 for the unaudited annual results for the year ended 31 December 2021 (the "**Unaudited Results**"); (ii) the audited annual results announcement of the Company dated 6 May 2022 for the audited annual results for the year ended 31 December 2021 (the "**Final Results**"); and (iii) the annual report of the Company for the year ended 31 December 2021 published on 12 May 2022 (the "**2021 Annual Report**"). Unless the context otherwise requires, capitalised terms used herein shall have the same meaning as those defined in the Final Results and 2021 Annual Report.

(I) THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

Further to the information disclosed in the Final Results, the Company wishes to provide to the shareholders and the potential investors of the Company with the following supplemental information in relation to the various material differences between the Unaudited Results and the Final Results:

Increase in revenue of approximately HK$8 million

In late 2021, the Group entered into a sales contract with a customer (which is an independent third party) in relation to the sales of plastic (the "**Sales**") at the amount of approximately RMB6.9 million (equivalent to approximately HK$8 million).

Due to the outbreak of the fifth wave of COVID-19 in Hong Kong in late 2021 and early 2022, some of the members of staff in relation to the Sales and the accounting department of the Group were infected and were not able to go back to office. It caused the delay of providing the Sales contract to the accounting department before the publication of the Unaudited Results. As a result, the relevant revenue was not recognised or reflected in the Unaudited Results.

Upon the recovery of the members of staff, the accounting record had been updated and the Sales contract was presented to the auditor of the Company (the "**Auditor**") in late April 2022, relevant adjustment to the revenue was made to the Final Results.

The Company was aware of the possible adjustment in relation to this matter. In consideration that the recorded transactions should be based on the documents made available to the accounting department and a prudent approach should be adopted in publication of the Unaudited Results and the adjustment was about an increase of the revenue, it is believed that the impact to the Final Results is not significant.

Increase of impairment loss under expected credit loss model of approximately HK$8 million

The increase of the impairment loss under expected credit loss model was mainly due to the increase in the impairment loss on other receivables included in the Final Results which amounted to approximately HK$8 million. The other receivables mainly comprised of 7 loans provided by the Group to 7 individuals in the PRC since 2020 (the "**PRC Loans**"). The PRC Loans were classified as other receivables in the accounts of the Group because they were not part of the money lending business which was licensed and could only operate in the region of Hong Kong under the Money Lenders Ordinance. Nevertheless, it was legally in order to grant the PRC Loans according to the legal opinion of the Company's PRC legal adviser. The Group intended to explore new opportunities by entering into the PRC market through provision of loans in small amounts to test the water.

In early 2022, the Company appointed an independent professional valuer (the "**Valuer**") to ascertain the value for the expected credit loss of the trade and other receivables of the Group for the year ended 31 December 2021. However, due to the lockdown measures in Shenzhen, the PRC in early 2022, the members of staff were unable to go back to their Shenzhen office to provide the documents in relation to the PRC Loans to the Valuer.

For the sake of prudence, the Company adopted the impairment loss under expected credit loss of all other receivables based on the first assessment of the Valuer when publishing the Unaudited Results but only except that of the PRC Loans. Relevant material difference in relation to the PRC Loans was disclosed in the Final Results upon finalising the valuation of the expected credit loss of the PRC Loans. The Company was of the view that assessing the impairment of the PRC Loans after having their PRC staff to update the situation of the PRC Loans and publishing the relevant adjustment in the Final Results would be more appropriate and accurate.

As at 31 December 2021, the aggregated gross principal and interest of the PRC Loans amounted to approximately RMB15.30 million (equivalent to approximately HK$18.74 million) and an aggregate allowance for credit losses amounted to RMB7.21 million (equivalent to HK$8.83 million) has been made. As at 30 June 2022, the aggregated outstanding principal of the PRC Loans amounted to RMB14.90 million (equivalent to HK$18.25 million) has been past due. Even though the PRC Loans were overdue, various payments of interest were received in the aggregate of RMB1.92 million up to the period ended 31 August 2022.

Increase of impairment loss on deposit paid of approximately HK$5 million

The increase of impairment loss on deposit paid of approximately HK$5 million was from the deposit paid for acquisition of properties.

During the year ended 31 December 2020, Shenzhen Shengshi Fuqiang Technology Co., Ltd.* (深圳盛世富強科技有限公司) ("**Shengshi Fuqiang**"), a non-wholly owned subsidiary of the Company, agreed to purchase and Fuyu Zhonghe Xinnong Market Real Estate Co., Ltd.* (扶餘中合新農市場置業有限公司) ("**Fuyu**") has agreed to transfer a property located in the PRC as to settle the loan and interest receivables due from Fuyu, which amounted to approximately RMB3,307,000 (equivalent to approximately HK$3,720,000). As at the date of settlement, the legal title of those properties have not been transferred to the Group and the fair value of the property was approximately to RMB3,188,000 (equivalent to approximately HK$3,587,000). Thus, a loss on settlement of loans to associates of RMB119,000 (equivalent to approximately HK$133,000) was recognised upon the settlement.

During the year ended 31 December 2021, Shengshi Fuqiang agreed to further purchase and Fuyu has agreed to transfer 18 properties and 23 car parking space located in the PRC as to settle the loan and interest receivables due from Fuyu, which amounted to approximately RMB27,465,000 (equivalent to approximately HK$33,107,000). As at the date of settlement, the legal title of those properties have not been transferred to the Group and the fair value of the properties was approximately to RMB22,237,000 (equivalent to approximately HK$26,804,000). Thus, a loss on settlement of loans to associates of RMB5,228,000 (equivalent to approximately HK$6,303,000) was recognised upon the settlement. From the administrative perspective, the Group is actively finding buyers, for the properties so as to collect and control the proceeds to settle the outstanding amount of the loan.

In early 2022, the Company appointed the Valuer to assist the Company to determine the fair value of the properties of which the Group has paid deposits for. The amount of the impairment loss in relation to this matter as disclosed in the Unaudited Results was based on the first assessment of the Valuer.

During the period after publication of the Unaudited Results but before publication of the Final Results, the Auditor had communicated with the Valuer and the management of the Company and calculations of the fair value of the properties and the assessment of impairment loss have been updated accordingly, which caused the increase of impairment loss on deposit paid as disclosed in the Final Results.

The Company is of the view that the adjustment was made subsequently due to different technical opinions provided by the Valuer and the Auditor to the management of the Company, including but not limited to parameters used in the valuation and grouping of properties for impairment assessment, and the impact of it to the Final Results would be acceptable.

The aggregated fair value less cost to disposal of the properties as at 31 December 2021 was approximately to RMB20,908,000 (equivalent to approximately HK$25,601,000), an impairment loss on deposits paid of RMB4,517,000 (equivalent to approximately HK$5,445,000) was recognised for the year ended 31 December 2021. As those properties are still under construction and the legal title of the properties have not yet been transferred to the Group, the amount paid was classified as deposit paid and the deposit paid represented full payment of the acquisition of those properties. As at 31 December 2021, the carrying amount of deposit paid was approximated to RMB20,908,000 (equivalent to approximately HK$25,601,000).

(II) THE MONEY LENDING BUSINESS OF THE GROUP

The board (the "**Board**") of directors (the "**Directors**") of the Company would like to provide the shareholders and potential investors of the Company with supplemental information in relation to the Group's money lending business (the "**Money Lending Business**") as disclosed in the 2021 Annual Report as follows:

The business model of the Money Lending Business

The Group's money lending business is operating by its wholly-owned subsidiary in Hong Kong. The Group also intended to explore new opportunities in entering into the market of the People's Republic of China (the "**PRC**") through provision of loans in small amounts to test the water by granting loans through a PRC subsidiary in 2020.

(i) The Group mainly provides loan financing to individuals customers. Customers are mainly solicited by the staff management or by referrals of business associates or clients; and

(ii) The directors of the subsidiaries involved provision of loans have over 5 years of experience in operating the money lending business supported by back office staff including finance and accounting departments.

Major terms of loans granted

The total outstanding principal amount of the loans granted in Hong Kong (the "**HK Loans**") as at 31 December 2021 was HK$8.33 million bearing interest at the rate ranging from 8% to 36%, maturing from one month to one year, with unlisted shares as collaterals. As at 31 December 2021, the loan and interest receivables in relation to the HK Loans (the "**HK Loan Receivables**") amounted to approximately HK$8.65 million and an allowance for credit losses of the HK Loan Receivables amounted to approximately HK$6.72 million.

During the year ended 31 December 2020, the Group has granted the loans to 7 individuals in the PRC (the "**PRC Loans**") with an aggregated principal amount of RMB14.9 million (equivalent to approximately HK$17.76 million). The PRC Loans are unsecured and bear interest rate ranging from 8% to 12% per annum with a term ranging from six months to 24 months. As at 31 December 2021, the loan and interest receivables in relation to the PRC Loans (the "**PRC Loan Receivables**") amounted to approximately HK$18.74 million and an allowance for credit losses of the PRC Loan Receivables amounted to approximately HK$8.83 million.

Accordingly, the aggregate of the outstanding principal amount of the HK Loans and the PRC Loans amounted to HK$26.57 million as at 31 December 2021.

Details of PRC Loans

	Balance as at 31.12.2021									
Borrower	Principal *RMB*	Interest receivable *RMB*	Amount of Interest received during 2021 *RMB*	Amount written-off *RMB*	Allowance for credit losses *RMB*	Interest rate per annum	Date of drawdown of loan	Maturity Date of loan	Collaterals/ Guarantees obtained from individual customers	Relationship with the Company and its connected persons
Individual 1 - PRC resident	1,000,000	14,333	–	–	1,014,333	12%	2020-11-18	2021-05-17	None	No
Individual 2 - PRC resident	900,000	11,400	–	–	911,400	12%	2020-11-23	2021-05-22	None	No
Individual 3 - PRC resident	1,000,000	9,677	–	–	1,009,677	12%	2020-12-02	2021-06-01	None	No
Individual 4 - PRC resident	1,000,000	7,742	–	–	1,007,742	12%	2020-12-08	2021-06-07	None	No
Individual 5 - PRC resident	1,000,000	5,161	–	–	1,005,161	12%	2020-12-16	2021-06-15	None	No
Individual 6 - PRC resident	5,000,000	176,667	600,000	–	1,129,568	8%	2020-01-23	2022-01-22	None	No
Individual 7 - PRC resident	5,000,000	176,667	600,000	–	1,129,568	8%	2020-01-23	2022-01-22	None	No
	14,900,000	401,647	1,200,000	–	7,207,451					

Note: Reference was made to Note 25 to the Financial Statements in the 2021 Annual Report of the Company, allowance for credit losses amounted to HK$8,825,000 (RMB7,207,000). Principal and allowance for credit losses as detailed in Note 25(b)(i) and (ii).

Loan receivables

As at 31 December 2021, the aggregate of the HK Loan receivables and the PRC Loan Receivables before allowance for credit losses (the "**Total Loan Receivables**") amounted to HK$27.39 million. The amount of the Total Loan Receivables due from (i) the largest borrower was RMB5.18 million (equivalent to approximately HK$6.34 million), representing approximately 23.14% of the Total Loans Receivables; and (ii) the five largest borrowers was HK$21.33 million), representing approximately 77.88% of the Total Loan Receivables.

Loan interest income

During the year ended 31 December 2021, the total loan interest income was approximately HK$1.18 million (2020: approximately HK$2.28 million) of which, approximately HK$0.22 million was related to the HK Loan Receivables and approximately HK$0.96 million was related to the PRC Loans.

Loan impairments

In early 2022, the Company appointed the Valuer to ascertain the value for the expected credit loss of the loans for the year ended 31 December 2021.

The impairment assessment was prepared on the basis of Expected Credit Loss in accordance with "HKFRS 9 – Financial Instruments". The HKFRS 9 outlines a "Three-stage" general approach (the "**General Approach**") for impairment based on changes in credit quality since initial recognition. To determine the amount of impairment, the Valuer discussed with the management on the credit risk level on the status of the loans (including the consideration of the default of the loans, as at 31 December 2021, most of loans are in default except for two loans with maturity in January 2022 which also defaulted after the financial year ended 31 December 2021), and split the receivables into different stage of default and then by applying the Standard ECL Formula (i.e. expected credit loss = exposure at default ("**EAD**") × probability of default ("**PD**") × loss given default ("**LGD**") × discount factor) to come up with the allowance for credit losses.

As at 31 December 2021, an impairment loss of the Total Loan Receivables of approximately HK$15.55 million was recognised (2020: impairment loss of the Total Loan Receivables of approximately HK$8.18 million). The significant increase was mainly attributable to the increase in expected credit loss provided for the PRC Loans.

With regard to the latest repayment status, partial repayments of the PRC Loans interests and principals have been received by the Company during 2022 and full repayments of the loans has been demanded by the Company. The borrowers have submitted the repayment proposals for extension of repayment period. Those proposals are currently considered and the repayment status is continuously monitored by the Company. Further actions included but not limited to legal proceedings for the recovery of any of the PRC Loans will be imposed if the Company believes that the repayment situation is further deteriorated.

Internal control system

Before granting the loans, the Group has conducted credit assessment basically follow the Internal Control Procedures (as defined below) of the Company including but not limited to the background of the potential customer including its job nature and income for their repayment abilities.

The Group has considered the factors in credit assessment before granting the loans. In light of the economic uncertainties, the Group would only consider granting of loans to independent third parties with collaterals/guarantee in the future.

Internal control procedures ("Internal Control Procedures")

The company will consider certain factors in credit assessment including but not limited to (i) the background of the potential client including its job nature and income; (ii) the credit history such as previous loans and the repayment durations; and (iii) the bank history in the bank statement.

Loan terms are determined with mainly reference to the market rates, financial background of each client and value of collaterals (if applicable).

The identity, beneficial ownership of collaterals (if applicable) and the amount wishes to borrow of the potential customer will be assessed. After the assessment and based on the information provided, the application will be reviewed and preliminary due diligence will be conducted. Upon the loan assessment, the officer will approve the loan application and need to ensure that the customer meet the eligibility and approval criteria for the loan. If the applicant is considered fail after the assessment, the application will be denied. When the application together with the relevant results from the credit assessment are approved, the applicant will sign the loan agreement and the loan will be drawn to the applicant thereafter.

A loan register is maintained by the Group in order to keep track of loan and interest repayments. The Group will also remind clients before due date by telephone calls and/or sending relevant debit notes.

If there were overdue loans, follow up telephone calls will be made to remind clients for repayment. If clients still fail to repay, demand letter will be issued. After a final reminder and no response from customer, further actions included but not limited to legal proceedings may be considered to institute to recover the outstanding loan and interest receivable.

By Order of the Board
China Eco-Farming Limited
Liu Chun Fai
Chairman & Executive Director

Hong Kong, 18 January 2023

In this announcement, for the purpose of illustration only, amounts quoted in RMB have been converted into HK$ at the rate of HK$1.1919 to RMB1 for the year ended 31 December 2020 and HK$1.2245 to RMB1 for the year ended 31 December 2021.

As at the date of this announcement, the executive Directors are Mr. Liu Chun Fai (Chairman), Mr. Tin Ka Pak, Timmy (Chief Executive Officer), Mr. So David Tat Man 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.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 announcement 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 announcement misleading.

This announcement will remain on the Company's website at http://www.aplushk.com/clients/8166chinaeco-farming/index.html and the "Latest Listed Company Information" page of the HKEx website at www.hkexnews.hk for at least 7 days from the date of its publication.

* *For identification purpose only*