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CHINA AGRI-PRODUCTS EXCHANGE LIMITED

中國農產品交易所有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 0149)

ANNOUNCEMENT OF SECOND INTERIM RESULTS FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2019

The board (the “**Board**”) of directors (the “**Director(s)**”) of China Agri-Products Exchange Limited (the “**Company**”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “**Group**”) for the twelve months ended 31 December 2019 (the “**Period**”), together with the comparative figures for the corresponding period in 2018. These condensed consolidated interim financial statements were not audited, but have been reviewed by HLB Hodgson Impey Cheng Limited (“**HLB**”), the Group’s external auditors, and the audit committee of the Company (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the twelve months ended 31 December 2019

		For the twelve months ended 31 December	
		2019	2018
		(Unaudited)	(Audited)
	Notes	HK\$'000	HK\$'000
Turnover	3	994,601	778,857
Cost of operation		(534,507)	(387,962)
Gross profit		460,094	390,895
Other revenue and other net income	4	13,623	21,313
General and administrative expenses		(200,734)	(234,876)
Selling expenses		(91,927)	(50,356)
Profit from operations before fair value changes and impairment		181,056	126,976
Net gain in fair value of investment properties		125,455	4,507
Written down of stock of properties		(2,983)	(66,371)
Change in fair value of derivative financial instruments		(1,696)	(17,687)
Share of profit on joint venture		–	10,352
Gain on disposal of subsidiaries		–	39,846

		For the twelve months ended	
		31 December	
		2019	2018
		(Unaudited)	(Audited)
		HK\$'000	HK\$'000
<i>Notes</i>			
Profit from operations		301,832	97,623
Finance costs	6	<u>(185,043)</u>	<u>(211,702)</u>
Profit/(loss) before taxation	7	116,789	(114,079)
Income tax	8	<u>(89,298)</u>	<u>(65,240)</u>
Profit/(loss) for the period		27,491	(179,319)
Other comprehensive loss, net of income tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Release of exchange differences upon disposal of subsidiaries		–	1,353
Exchange differences on translating foreign operations		<u>(72,574)</u>	<u>(184,698)</u>
Other comprehensive loss for the period, net of income tax		<u>(72,574)</u>	<u>(183,345)</u>
Total comprehensive loss for the period, net of income tax		<u>(45,083)</u>	<u>(362,664)</u>
Profit/(loss) for the period attributable to:			
Owners of the Company		8,510	(212,596)
Non-controlling interests		<u>18,981</u>	<u>33,277</u>
		<u>27,491</u>	<u>(179,319)</u>
Total comprehensive income/(loss) for the period attributable to:			
Owners of the Company		(57,084)	(378,013)
Non-controlling interests		<u>12,001</u>	<u>15,349</u>
		<u>(45,083)</u>	<u>(362,664)</u>
Earnings/(loss) per share			
– Basic (<i>HK cents</i>)	10	<u>0.09</u>	<u>(2.14)</u>
– Diluted (<i>HK cents</i>)	10	<u>0.09</u>	<u>(2.14)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2019 (Unaudited) <i>Notes</i> <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		49,254	52,768
Investment properties		2,876,152	3,165,921
Intangible assets		–	6,061
Right-of-use assets		<u>18,428</u>	<u>–</u>
		<u>2,943,834</u>	<u>3,224,750</u>
Current assets			
Stock of properties		1,618,212	1,597,574
Trade and other receivables	11	232,028	250,431
Loan receivables		43,373	40,327
Financial assets at fair value through profit or loss		480	2,175
Cash and cash equivalents		<u>404,627</u>	<u>488,415</u>
		<u>2,298,720</u>	<u>2,378,922</u>
Current liabilities			
Deposits and other payables	12	751,901	776,193
Contract liabilities		603,734	652,362
Bonds		26,000	844,055
Bank and other borrowings		213,330	328,036
Lease liabilities		2,642	–
Promissory notes		376,000	376,000
Income tax payable		<u>78,934</u>	<u>73,639</u>
		<u>2,052,541</u>	<u>3,050,285</u>
Net current assets/(liabilities)		<u>246,179</u>	<u>(671,363)</u>
Total assets less current liabilities		<u>3,190,013</u>	<u>2,553,387</u>

	As at 31 December 2019 (Unaudited) <i>HK\$'000</i>	As at 31 December 2018 (Audited) <i>HK\$'000</i>
Non-current liabilities		
Bonds	172,677	182,192
Bank and other borrowings	800,893	120,003
Convertible bonds	244,319	234,747
Lease liabilities	16,659	–
Deferred tax liabilities	411,896	421,081
	<u>1,646,444</u>	<u>958,023</u>
Net assets	<u>1,543,569</u>	<u>1,595,364</u>
Capital and reserves		
Share capital	99,531	99,531
Reserves	<u>1,052,356</u>	<u>1,109,440</u>
Total equity attributable to owners of the Company	<u>1,151,887</u>	<u>1,208,971</u>
Non-controlling interests	<u>391,682</u>	<u>386,393</u>
Total equity	<u>1,543,569</u>	<u>1,595,364</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

(a) Statement of compliance

The unaudited condensed consolidated interim financial statements (the “**Interim Financial Statements**”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and with Hong Kong Accounting Standard (the “**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

The Interim Financial Statements has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of Interim Financial Statements in conformity with HKAS 34 requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

(b) Change of financial year end date

On 29 January 2020, the Group announced to change its financial year end date from 31 December to 31 March. Accordingly, the current financial period will cover a fifteen-month period from 1 January 2019 to 31 March 2020. This condensed consolidated interim financial information now presented covers a twelve-month period from 1 January 2019 to 31 December 2019, and the comparative figures in this condensed consolidated interim financial information cover a twelve-month period from 1 January 2018 to 31 December 2018.

2. APPLICATION OF NEW AND REVISED HKFRSs

The Interim Financial Statements has been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

The Group has adopted the following new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) issued by the HKICPA for the first time for these Interim Financial Statements.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2015–2017 Cycle
HKFRS 9 (Amendments)	Clarification to HKFRS 9 Financial Instrument
HKFRS 16	Leases
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement
HKAS 28 (Amendments)	Investments in associates and joint ventures
HK (IFRIC) – Int 23	Uncertainty over income tax treatments

The adoption of other new and revised HKFRSs has had no significant financial effect on these Interim Financial Statements and there have been no significant changes to the accounting policies applied in these Interim Financial Statements, except the following:

Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases” (“**HKAS 17**”), and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of office premises that have a lease term of 12 months or less from the date of initial application of HKFRS 16. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” (“**HKFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of office premises in the PRC was determined on a portfolio basis; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately HK\$21,825,000 and right-of-use assets of approximately HK\$21,825,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rate applied is 9%.

	<i>HK\$’000</i>
Operating lease commitments disclosed as at 31 December 2018	<u>30,312</u>
Lease liabilities discounted at relevant incremental borrowing rates	25,188
Less: Recognition exemption – short-term leases	<u>(3,363)</u>
Lease liabilities as at 1 January 2019	<u><u>21,825</u></u>
Analysed as	
Current	2,652
Non-current	<u>19,173</u>
	<u><u>21,825</u></u>

The recognised right-of-use assets relate to the following types of assets:

	As at 31 December 2019 <i>HK\$'000</i>	As at 1 January 2019 <i>HK\$'000</i>
Rented premises	<u>18,428</u>	<u>21,825</u>

The Group applies judgement to determine the lease term for lease contracts in which it is a lessee that include renewal option. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 <i>HK\$'000</i> (audited)	Adjustments <i>HK\$'000</i>	Carrying amounts under HKFRS 16 at 1 January 2019 <i>HK\$'000</i>
Non-current Assets			
Right-of-use assets	<u>—</u>	<u>21,825</u>	<u>21,825</u>
Current Liabilities			
Lease liabilities	<u>—</u>	<u>2,652</u>	<u>2,652</u>
Non-current liabilities			
Lease liabilities	<u>—</u>	<u>19,173</u>	<u>19,173</u>

3. TURNOVER

Turnover represents revenue from (i) property rental income, (ii) property ancillary services, (iii) commission income from agricultural produce exchange market, (iv) property sales, and (v) food and agricultural by-products merchandising. The amount of each significant category of revenue recognised during the period, net of discount and sales related tax, is analysed as follows:

	For the twelve months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Revenue from contracts with customers:		
<i>Recognised at a point in time</i>		
Revenue from property ancillary services	91,823	84,688
Commission income from agricultural produce exchange market	82,644	94,827
Revenue from property sales	605,264	399,772
Financial service income	–	24
Food and agricultural by-products merchandising	25,687	4,410
	<u>805,418</u>	<u>583,721</u>
Revenue from other sources:		
Property rental income	189,183	195,136
	<u>994,601</u>	<u>778,857</u>

4. OTHER REVENUE AND OTHER NET INCOME

	For the twelve months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Other revenue and other net income		
Bank and other interest income	8,060	7,243
PRC government subsidies (<i>note (a)</i>)	1,312	5,310
Management fee income	–	4,250
Others	4,251	4,510
	<u>13,623</u>	<u>21,313</u>

Note:

(a) PRC government subsidies

PRC government subsidies represent various form of subsidies granted to the Group by the local governmental authorities in the PRC for compensation of expenses incurred by the Group. These grants are generally made for business support and awarded to enterprises on a discretionary basis. The Group received these government grants in respect of its investments in the agricultural products exchange market in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

5. SEGMENT REPORTING

The Group has two reportable segments under HKFRS 8, (i) agricultural produce exchange market operation and (ii) property sales. The segmentations are based on the information about the operation of the Group that management uses to make decisions and regularly review by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance.

Segment revenue and results

An analysis of the Group's revenues and results by reportable segment for the twelve months ended 31 December 2019 and 2018:

	Agricultural produce exchange market operation		Property sales		Unallocated		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Turnover								
External sales	<u>389,337</u>	<u>379,085</u>	<u>605,264</u>	<u>399,772</u>	—	—	<u>994,601</u>	<u>778,857</u>
Result								
Segment result	<u>183,413</u>	<u>125,985</u>	<u>85,967</u>	<u>73,440</u>	—	—	<u>269,380</u>	<u>199,425</u>
Other revenue and other net income	6,085	14,561	—	—	7,538	6,752	13,623	21,313
Net gain in fair value of investment properties	125,455	4,507	—	—	—	—	125,455	4,507
Written down of stock of properties	—	—	(2,983)	(66,371)	—	—	(2,983)	(66,371)
Change in fair value of derivative financial instruments	—	—	—	—	(1,696)	(17,687)	(1,696)	(17,687)
Share of profit on joint venture	—	—	—	—	—	10,352	—	10,352
Gain on disposal of subsidiaries	—	—	—	—	—	39,846	—	39,846
Unallocated corporate expense							<u>(101,947)</u>	<u>(93,762)</u>
Profit from operations							<u>301,832</u>	<u>97,623</u>
Finance costs	(28,885)	(33,204)	—	—	(156,158)	(178,498)	<u>(185,043)</u>	<u>(211,702)</u>
Profit/(loss) before taxation							<u>116,789</u>	<u>(114,079)</u>
Income tax							<u>(89,298)</u>	<u>(65,240)</u>
Profit/(loss) for the period							<u><u>27,491</u></u>	<u><u>(179,319)</u></u>

Segment assets and liabilities

An analysis of the Group's assets and liabilities by reportable segment as at 31 December 2019 and 2018:

	Agricultural produce exchange market operation		Property sales		Consolidated	
	2019	2018	2019	2018	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Assets						
Segment assets	3,374,427	3,702,285	1,619,146	1,626,386	4,993,573	5,328,671
Unallocated corporate assets					248,981	275,001
Consolidated total assets					5,242,554	5,603,672
Liabilities						
Segment liabilities	1,386,842	1,563,833	506,525	455,921	1,893,367	2,019,754
Unallocated corporate liabilities					1,805,618	1,988,554
Consolidated total liabilities					3,698,985	4,008,308

6. FINANCE COSTS

	For the twelve months ended 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Interest on bank and other borrowings wholly repayable within five years	29,648	34,085
Interest on bank and other borrowings wholly repayable over five years	5,168	–
Interest on promissory notes	23,500	23,500
Interest on leases liabilities	1,348	–
Interest on convertible bonds	29,421	28,317
Interest on bonds	96,300	126,673
Less: Amount classified as capitalised into stock of properties	(342)	(873)
	185,043	211,702

7. PROFIT/(LOSS) BEFORE TAXATION

	For the twelve months ended	
	31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Profit/(loss) before taxation has been arrived at after charging the following items:		
Depreciation and amortisation	19,265	19,869
Depreciation of right-of-use assets	2,630	–
Change in fair value of derivative financial instruments	1,696	17,687
Operation lease charges: minimum lease payments – property rental	–	1,574
Short-term leases expense	3,349	–
Impairment loss on trade and other receivables and loan receivables	4,903	1,642
Loss on disposal of property, plant and equipment	588	410

8. INCOME TAX

	For the twelve months ended	
	31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Current tax		
– PRC enterprise income tax	89,678	54,259
Deferred tax		
– Origination and reversal of temporary differences	(380)	10,981
	<u>89,298</u>	<u>65,240</u>

No provision for Hong Kong Profits Tax has been made in the Interim Financial Statements as the Company and its subsidiaries had no assessable profits in both periods. PRC Enterprise Income Tax is computed to the relevant legislation interpretations and practices in respect thereof during the period. PRC Enterprise Income Tax rate is 25% (for the twelve months ended 31 December 2018: 25%).

9. DIVIDENDS

The Directors do not propose the payment of any interim dividend in respect of the period under review (for the twelve months ended 31 December 2018: Nil).

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit for the period attributable to owners of the Company of approximately HK\$8,510,000 (for the twelve months ended 31 December 2018: loss for the period attributable to owners of the Company of approximately HK\$212,596,000) and weighted average number of approximately 9,953,068,000 ordinary shares (period from 1 January 2018 to 31 December 2018: approximately 9,953,068,000). The diluted earnings/(loss) per share for the period ended 31 December 2019 and 2018 were the same as the basic earnings/(loss) per share as the outstanding convertible bonds had an anti-dilutive effect on the basic earnings/(loss) per share.

11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranging from 30 days to its trade customers. Included in trade and other receivables are trade receivables of approximately HK\$7,855,000 (31 December 2018: approximately HK\$8,355,000) and their aged analysis, presented based on the payment terms on the tenancy agreement and net of impairment loss, at each reporting period is as follow:

	As at 31 December 2019 HK\$'000 (Unaudited)	As at 31 December 2018 HK\$'000 (Audited)
Less than 90 days	1,730	1,887
More than 90 days but less than 180 days	530	482
More than 180 days	5,595	5,986
Total trade receivables	7,855	8,355
Deposit for land acquisition	54,107	55,284
Other deposits	9,845	13,727
Prepayments	96,080	81,910
Other receivables	68,416	91,603
	236,303	250,879
Less: allowance for impairment	(4,275)	(448)
Trade and other receivables, net	232,028	250,431

12. DEPOSITS AND OTHER PAYABLES

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 31 December 2018 <i>HK\$'000</i> (Audited)
Accrued charges	34,739	26,811
Construction payables	55,085	73,659
Deposit received	105,060	88,961
Interest payables	272,175	250,005
Other tax payables	48,240	59,859
Other payables	<u>236,602</u>	<u>276,898</u>
	<u>751,901</u>	<u>776,193</u>

13. INDEPENDENT REVIEW

The Interim Financial Statements for the twelve months ended 31 December 2019 is unaudited, but has been reviewed by HLB, in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the HKICPA. The Interim Financial Statements has also been reviewed by the Audit Committee.

INTERIM DIVIDEND

The Board has resolved not to declare any payment of interim dividend for the Period (for the twelve months ended 31 December 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF FINANCIAL RESULTS

Turnover, gross profit and segment result

For the Period, the Group recorded a turnover of approximately HK\$995 million, representing an increase of approximately HK\$216 million or approximately 28% from approximately HK\$779 million for the corresponding period of 2018 as property sales recognition was higher than that of the same period of 2018. The below table summarises the key financial performance of the Group:

	For the twelve months ended 31 December 2019			For the twelve months ended 31 December 2018		
	Agricultural Produce Exchange Market Operations	Property Sales	Total	Agricultural Produce Exchange Market Operations	Property Sales	Total
HK\$ million and approximate %						
Turnover	390	605	995	379	400	779
Gross Profit	269	191	460	278	113	391
Segment Result	183	86	269	126	73	199
Gross Profit to Turnover	69%	32%	46%	73%	28%	50%
Segment Result to Turnover	47%	14%	27%	33%	18%	26%

During the Period, the Group recorded a gross profit and a segment result of approximately HK\$460 million and approximately HK\$269 million, respectively (for the twelve months ended 31 December 2018: approximately HK\$391 million and approximately HK\$199 million, respectively), representing an increase of approximately 18% and approximately 35%, respectively, as compared to the corresponding period of 2018 mainly due to higher property sales recognition compared to the corresponding period of 2018.

General and administrative expenses, selling expenses and finance costs

The Group recorded general and administrative expenses of approximately HK\$201 million in the Period (for the twelve months ended 31 December 2018: approximately HK\$235 million). The decrease was mainly due to the implementation of cost saving policies and the decrease of exchange loss during the Period. Selling expenses were approximately HK\$92 million in the Period (for the twelve months ended 31 December 2018: approximately HK\$50 million), which was mainly due to the increase in marketing and promotion expenses of promoting property sales. Finance costs were approximately HK\$185 million in the Period (for the twelve months ended 31 December 2018: approximately HK\$212 million) and such decrease was mainly due to the repayment of bank and other borrowings.

Net gain in fair value of investment properties and written down of stock of properties

The net gain in fair value of investment properties was approximately HK\$125 million (for the twelve months ended 31 December 2018: net gain of approximately HK\$5 million). Such increase was mainly due to the improvement of income derived from Wuhan Baisazhou Agricultural and By-Product Exchange Market (“**Wuhan Baisazhou Market**”) and Luoyang Hongjin Agricultural and By-Product Exchange Market (“**Luoyang Market**”). Stock of properties value of approximately HK\$3 million was impaired during the Period (for the twelve months ended 31 December 2018: approximately HK\$66 million). The fair value was arrived at based on the valuations carried out by an independent firm of qualified professional valuers. The professional valuers are professional members of The Hong Kong Institute of Surveyors and the valuations conform to the Valuation Standard of The Hong Kong Institute of Surveyors.

Change in fair value of derivative financial instruments

During the Period, net loss in fair value of derivative financial instruments was approximately HK\$2 million (for the twelve months ended 31 December 2018: approximately HK\$18 million) due to the closer to the maturity date.

Profit attributable to owners of the Company

The profit attributable to owners of the Company for the Period was approximately HK\$9 million as compared to the loss attributable to owners of the Company of approximately HK\$213 million in the corresponding period of 2018. The Group recorded profit from operations before fair value change of investment properties and impairment of approximately HK\$181 million and profit from operations of approximately HK\$302 million for the Period (for the twelve months ended 31 December 2018: approximately HK\$127 million and approximately HK\$98 million, respectively). The profit attributable to owners of the Company was mainly due to the increase in property sales recognition, increase in net gain in fair value of investment properties, decrease in loss in fair value of derivative financial instruments, decrease in impairment of stock of properties and decrease in finance costs and administrative expenses.

REVIEW OF OPERATIONS

During the Period, the Group was principally engaged in management and sales of properties in agricultural produce exchange markets in the People's Republic of China (the “**PRC**”). The operating performance of our agricultural by-products exchange markets had improved during the Period with the operating performance and market ranking of the merchandising services remarked steady progress.

Agricultural Produce Exchange Markets

Hubei Province

Wuhan Baisazhou Market

Located in the provincial capital of Hubei Province, the PRC, Wuhan Baisazhou Market is one of the largest agricultural produce exchange market operators in the PRC. Wuhan Baisazhou Market is situated in the Hongshan District of Wuhan City, the PRC with a site area of approximately 310,000 square metres and a total gross floor area of approximately 190,000 square metres. In 2019, Wuhan Baisazhou Market was awarded top 10 of agricultural produce exchange markets by China Agricultural Wholesale Market Association. The award was a sign to the market contribution being made by the Group's effort and expertise as an agricultural produce exchange market operator in the PRC.

As a mature market in Wuhan, the PRC, Wuhan Baisazhou Market has established its reputation and track record to customers and tenants and has continued to make significant contribution to the community. During the Period, the performance of Wuhan Baisazhou Market was steady and satisfactory.

Huangshi Market

Huangshi Hongjin Agricultural and By-Product Exchange Market (“**Huangshi Market**”) is one of the Group's joint venture projects in Hubei Province, the PRC. Huangshi Market occupies approximately 23,000 square metres. Huangshi city is a county level city in Hubei and around 100 kilometres away from Wuhan Baisazhou Market. Huangshi Market, as a second-tier agricultural produce exchange market, created synergy with Wuhan Baisazhou Market to boost vegetables and by-products trading. During the Period, Huangshi Market faced keen competition from a new nearby market that led to a low performance.

Suizhou Market

In March 2018, the Group formed a joint venture company with an independent third party in Suizhou City, Hubei Province, the PRC, to operate Suizhou Baisazhou Agricultural and By-Product Exchange Market (“**Suizhou Market**”), which is the third project of the Group in Hubei Province and this market occupies approximately 240,000 square metres. Phase one of Suizhou Market focused on vegetables and fruits transactions. The Group has pursued asset light business model by taking up the contract management rights to operate this new market in Hubei Province. During the Period, the operating performance of Suizhou Market was satisfactory.

Henan Province

Luoyang Market

Luoyang Market was the flagship project of the Group in Henan Province, the PRC, with a site area and a gross floor area of approximately 255,000 square metres and approximately 223,000 square metres, respectively. During the Period, the business performance of Luoyang Market improved, while both occupancy rate and vehicles traffic were satisfactory, and contributed positive cashflow to the Group.

Puyang Market

Puyang Hongjin Agricultural and By-Product Exchange Market (“**Puyang Market**”) was one of our joint venture projects in cooperation with a local partner in Henan Province, the PRC. During the Period, Puyang Market recognised property sales and resulted in a growth at a double digit rate in turnover as compared to the corresponding period of 2018.

Kaifeng Market

Kaifeng Hongjin Agricultural and By-Product Exchange Market (“**Kaifeng Market**”), with a gross floor construction area of approximately 120,000 square metres, was the third point of market operations for facilitating the Group to build an agricultural produce market network in Henan Province, the PRC. Kaifeng Market performed steadily during the Period.

Guangxi Zhuang Autonomous Region

Yulin Market

Yulin Hongjin Agricultural and By-Product Exchange Market (“**Yulin Market**”) is one of the largest agricultural produce exchange markets in Guangxi Zhuang Autonomous Region (“**Guangxi Region**”), the PRC with a site area of approximately 415,000 square metres and a total gross floor area of approximately 196,000 square metres. It consists of various types of market stalls and multi-storey godown. Phase two development of Yulin Market was a new growth driver for the Group. As an energetic agricultural produce exchange market with continuously remarkable performance, Yulin Market has become one of the key agricultural produce exchange markets in the Guangxi Region. The performance of Yulin Market was satisfactory during the Period, achieving property sales recognition contributed positively to the Group.

Qinzhou Market

Qinzhou Hongjin Agricultural and By-Product Exchange Market (“**Qinzhou Market**”), with a gross floor construction area of approximately 180,000 square metres, was the second point of market operations and facilitated the Group to build an agricultural produce market network in the Guangxi Region. During the Period, the performance of Qinzhou Market was satisfactory.

Jiangsu Province

Xuzhou Market

Xuzhou Agricultural and By-Product Exchange Market (“**Xuzhou Market**”) occupies approximately 200,000 square metres and is located in the northern part of Jiangsu Province, the PRC. The market houses various market stalls, godowns and cold storage. Xuzhou Market is a major marketplace for the supply of fruits in the city and the northern part of Jiangsu Province, the PRC. The operating performance of Xuzhou Market was steady during the Period.

Huai'an Market

Huai'an Hongjin Agricultural and By-Product Exchange Market (“**Huai'an Market**”) occupies approximately 100,000 square metres and is located at Huai'an City of Jiangsu Province, the PRC. Phase one of Huai'an Market began operation in October 2015 and it is expected that the performance of Huai'an Market will gradually improve after the market becomes more mature. During the Period, the Company is under a legal dispute with the joint venture partner, the details of which will be disclosed in note 20 to the condensed consolidated financial statements in our second interim report for the twelve months ended 31 December 2019 to be published in compliance with the requirements under the Listing Rules.

Liaoning Province

Panjin Market

Panjin Hongjin Agricultural and By-Product Exchange Market (“**Panjin Market**”), with a construction area of around 50,000 square metres, is the first attempt of the Group’s investment in Liaoning Province, the PRC. Panjin Market focused on the trading of river crabs. It is expected that the performance of Panjin Market will remain steady.

Food and agricultural by-products merchandising

Wuhan Baisazhou Market strategically extended its footprints to the business of food and agricultural by-products merchandising and the business was gradually improving during the Period. The management would closely monitor the performance of this new business and would launch this new service to other markets when the business model becomes mature.

E-commerce development

With the robust mobile network and widespread use of intelligent mobile devices in the PRC, the Group has put limited resources into e-commerce development linking online and offline customers in our agricultural produce exchange markets together. The Group took cautious cost control on e-business operations and will also explore opportunities to cooperate with other business partners in this area.

Cyber risk and security

With computer system and internet network playing vital roles in its operation, the Group has designated professionals to monitor and assess potential cyber risk. Both hardware and software are kept track with appropriate company policies. Potential cyber risks and network security is one of the key concerns to the management, thus the Group has formulated policies and procedures to regulate the use of internet, physically safeguard of system power supply and regularly update of internet protection system and firewall to separate the Company’s intranet from outside network. Designated professionals are responsible for the day-to-day monitoring on any abnormal network activities.

Data fraud or theft risk

The Group continuously reviews and updates its internal control system on data and information access. Appropriate policies have been adopted to protect data, and access permissions are only granted to the authorised personnel. The management believes the current policies and procedures have been effectively in place to avoid data fraud or theft risk.

Environmental and social risk

Due to the nature of business, the Company will face a moderate environmental risk if serious and permanent climate change happens in China. Such risk may cause an adverse impact on agricultural production and affect the Company's turnovers from market operation and property sales.

2019-novel coronavirus (COVID-19) outbreak

During the outbreak, the PRC government have imposed various measures to constraint the spreads. This includes limiting the locomotion of people and vehicles and strengthening the markets hygiene controls. These measures lower the market trading activities and related commission income. However, due to the nature of business, the impact is temporary. Once the outbreak is over, the trading volume and income will restore to normal level.

PRE-CONDITIONAL VOLUNTARY PARTIAL CASH OFFER TO ACQUIRE SHARES AND CONVERTIBLE NOTES OF THE COMPANY

On 26 September 2019 (as supplemented by the announcement of the Company dated 28 November 2019), Goal Success Investments Limited (the “**Offeror**”), an indirect wholly-owned subsidiary of Wai Yuen Tong Medicine Holdings Limited (“**WYT**”), announced that Kingston Securities Limited, on behalf of the Offeror, would make a pre-conditional voluntary partial cash offer to acquire such number of shares of the Company (the “**Share(s)**”) from the shareholders of the Company (the “**Shareholders**”) which would result in the Offeror and parties acting in concert with it holding a maximum of 75% of the issued share capital of the Company at the partial share offer price of HK\$0.091 per Share (the “**Partial Share Offer**”) and to acquire a maximum of 46.86% of the outstanding principal amount of the 7.5% convertible notes (the “**Convertible Notes**” or the “**CN**”) due 2021 issued by the Company on 19 October 2016 (subject to adjustment in the event of a change in the issued share capital of the Company) at the partial CN offer price of HK\$0.2275 for each outstanding HK\$1 face value of the CN (the “**Partial CN Offer**”, together with the Partial Share Offer, collectively the “**Partial Offers**”).

On 29 January 2020, the Offeror announced that it had received (i) valid acceptances in respect of 5,582,473,153 Shares from the independent Shareholders under the Partial Share Offer, representing approximately 56.09% of the Shares in issue as at that date; and (ii) no valid acceptance under the Partial CN Offer. The Partial Share Offer was approved by the independent Shareholders holding 5,056,235,475 Shares, representing approximately 70.70% of the Shares held by the independent Shareholders as at that date. The Offeror further announced that as at 29 January 2020, all the conditions to the Partial Share Offer were fulfilled and the Partial Share Offer became unconditional in all respects. The Partial CN Offer, which was subject to and conditional upon the Partial Share Offer becoming or being declared unconditional in all respects, accordingly became and was declared unconditional in all respects.

On 12 February 2020 (i.e. the final closing date of the Partial Offers), the Offeror announced that it had received (i) valid acceptances in respect of 5,704,449,061 Shares from the independent Shareholders under the Partial Share Offer, representing approximately 57.31% of the Shares in issue as at that date; and (ii) no valid acceptance under the Partial CN Offer. According to the terms of the Partial Share Offers, the Offeror acquired and became the owner of 5,312,395,685 Shares, representing approximately 53.38% of the Shares in issue as at that date.

For details, please refer to the announcements dated 26 September 2019, 16 October 2019, 15 November 2019, 26 November 2019, 28 November 2019, 16 December 2019, 31 December 2019, 7 January 2020, 14 January 2020, 29 January 2020 and 12 February 2020, respectively jointly published by the Offeror, the Company, Wang On Group Limited and WYT, and the composite offer and response document dated 7 January 2020 jointly issued by the Offeror and the Company.

CHANGE IN FINANCIAL YEAR END DATE

As detailed in the announcement of the Company dated 29 January 2020, the Board has resolved to change the financial year end date of the Company from 31 December to 31 March in order to enable the Group to rationalise and more efficiently use its resources. Accordingly, the next financial year end date of the Company will be 31 March 2020 and the next published audited financial statements of the Company will cover a 15-month period from 1 January 2019 to 31 March 2020.

RECLASSIFICATION OF INVESTMENT PROPERTIES TO STOCK OF PROPERTIES

During the Period, the Group has reclassified the investment properties of Luoyang Market to stock of properties in the amount of approximately HK\$374 million due to the change of sale plan and business strategy to increase sale of properties.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had total cash and cash equivalents amounting to approximately HK\$405 million (31 December 2018: approximately HK\$488 million) whilst total assets and net assets were approximately HK\$5,243 million (31 December 2018: approximately HK\$5,604 million) and approximately HK\$1,544 million (31 December 2018: approximately HK\$1,595 million), respectively. The Group's gearing ratio as at 31 December 2019 was approximately 0.9 (31 December 2018: approximately 1.0), being a ratio of total bank and other borrowings, bonds and promissory notes of approximately HK\$1,833 million (31 December 2018: approximately HK\$2,085 million), net of cash and cash equivalents of approximately HK\$405 million (31 December 2018: approximately HK\$488 million) to shareholders' funds of approximately HK\$1,544 million (31 December 2018: approximately HK\$1,595 million).

As at 31 December 2019, the ratio of total interest-bearing debts of approximately HK\$1,833 million (31 December 2018: approximately HK\$2,085 million) to total assets of approximately HK\$5,243 million (31 December 2018: approximately HK\$5,604 million) was approximately 35% (31 December 2018: approximately 37%).

CONVERTIBLE NOTES

On 19 October 2016, the Company issued the Convertible Notes with the aggregate principal amount of HK\$500 million which will mature on 18 October 2021, which entitle the holders to convert into the Shares at a conversion price of HK\$0.4 per Share. During the Period, no Convertible Notes were converted into Shares by the Convertible Notes' holders. As at 31 December 2019, the Convertible Notes with the outstanding principal amount of HK\$264.8 million was in issue.

LISTED NOTES DUE IN 2024 (“LISTED NOTES”)

In May 2014, the Company established a HK\$1,000,000,000 medium term note program. The Listed Notes issued under the program are listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) by way of debt issue to professional investors only (stock code: 5755). As at 31 December 2019, the Listed Notes in the principal amount of HK\$290,000,000 remained outstanding.

CAPITAL COMMITMENTS, PLEDGES AND CONTINGENT LIABILITIES

As at 31 December 2019, outstanding capital commitments, contracted but not provided for, amounted to approximately HK\$377 million (31 December 2018: approximately HK\$214 million) in relation to the purchase of property, plant and equipment, construction contracts and operating lease agreements. As at 31 December 2019, the Group had significant contingent liabilities in the amount of approximately HK\$0.1 million in relation to the guarantees provided by wholly-owned subsidiaries of the Company to our customers in favor of a bank for the loans provided by the bank to the customers of our projects (31 December 2018: approximately HK\$0.2 million).

As at 31 December 2019, certain investment properties and stock of properties with carrying amount of approximately HK\$1,528 million (31 December 2018: approximately HK\$1,669 million for land use rights and properties) were pledged to secure certain bank borrowings.

The Group did not have any outstanding foreign exchange contracts, interest or currency swaps or other financial derivatives as at 31 December 2019. The revenue, operating costs and bank deposits of the Group were mainly denominated in Renminbi and Hong Kong dollars. The activities of the Group are exposed to foreign currency risks mainly arising from its operations in mainland China and certain bank deposits denominated in Renminbi. Currently, the Group does not have a foreign currency hedging policy. During the Period, due to the currency fluctuation of Renminbi against Hong Kong dollars, the Group considered, from time to time, alternative risk hedging tools to mitigate Renminbi currency exchange risk.

DEBT PROFILES AND FINANCIAL PLANNING

As at 31 December 2019 and 31 December 2018, interest-bearing debts of the Group were analysed as follows:

	As at 31 December 2019		As at 31 December 2018	
	Carrying amount <i>HK\$ million</i>	Approximate effective interest rate <i>(per annum)</i>	Carrying amount <i>HK\$ million</i>	Approximate effective interest rate <i>(per annum)</i>
Bonds	199	11%	1,026	11%
Convertible Notes	244	12%	235	12%
Financial Institution Borrowings	414	6%	448	6%
Non-financial Institution Borrowings	600	10%	—	—
Promissory Notes	376	5%	376	5%
Total	1,833		2,085	

Note:

Save as the financial institution borrowings which were made in Renminbi with floating or fixed interest rates, other items as mentioned in the above table were made in Hong Kong dollars with fixed interest rates.

As at 31 December 2019, the bonds issued by the Company will mature during the period from February 2020 to September 2024; the Convertible Notes will mature in October 2021; the financial institution borrowings of the Company will mature during the period from January 2020 to May 2029; the non-financial institution borrowings of the Company will mature in September 2022; and the holders of the promissory notes gave an undertaking not to indorse, assign, transfer or negotiate the promissory notes and enforce payment by presentation of the promissory notes until the final determination of a court action or further court order. Under the said undertaking, the promissory notes would no longer fall due for payment by the Company on 5 December 2012. Details of the undertaking and the court case will be disclosed in note 20 to the condensed consolidated financial statements of the Company's second interim report to be distributed by the Company in due course.

TREASURY POLICY

The Group's treasury policy includes diversifying the funding sources. Internally generated cash flow and interest-bearing financial/non-financial institution loans are the general source of funds to finance the operation of the Group during the Period. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations. In order to meet interest-bearing debts and business capital expenditure, the Group is from time to time considering various alternatives equity and debt financing including but not limited to new share placing, rights issue of new shares, financial institution borrowings, non-financial institution borrowings, bonds issuance, convertible notes, other debt financial instruments, disposal of investment properties and sales of stock of properties.

MATERIAL VALUATION METHOD OF INVESTMENT PROPERTIES AND REVIEW OF AUDIT COMMITTEE

The investment properties of the Group were stated at fair value as at 31 December 2019. The fair value was arrived at based on the valuations carried out by an independent firm of qualified professional valuers. The professional valuers are professional members of The Hong Kong Institute of Surveyors with experience in the location of the properties being valued. The valuations are confirmed to be in accordance with HKIS Valuation Standards 2017, which incorporates the International Valuation Standards (IVS). The professional valuers valued the properties on the basis of capitalisation of the net income derived from the properties rental and made reference to the asking or transaction price of market comparable. For inventory portions of the properties, Direct Comparison Method is adopted based on the principle of substitution, where comparison is made based on prices realised on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

The material valuation methods of investment properties valuation have been reviewed by the Audit Committee and the Board.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for the subsidiaries of the Company, there was no significant investments held, nor was there any material acquisition or disposal of subsidiaries during the Period. As at 31 December 2019, the Group did not have a concrete plan for material investments or capital assets nor acquisition or disposal of subsidiaries.

RISK FACTORS RELATING TO OUR INDUSTRY AND BUSINESS OPERATIONS

As at 31 December 2019, the Group operated 11 agricultural produce exchange markets across 5 provinces in the PRC. In view of the ever-changing business environment in the PRC, the following are the principal risks, challenges and uncertainties faced by the Group, including: (1) fluctuation in the exchange rate of Renminbi against Hong Kong dollars, which affects the translation of the PRC assets and liabilities from Renminbi to Hong Kong dollars in the Group's financial reporting, in which the Group periodically monitor the exchange rate fluctuation, and prepare effective hedging mechanism to tackle when adverse condition happens; (2) difficulty in obtaining adequate financing, including equity and debt financing, to support our agri-products exchange markets that are capital intensive, in which the Group regularly review the short-term and long-term liquidity level to prepare for the future needs, as and when appropriate; (3) preserving or enhancing our competitive position in the agri-products exchange markets industry, in which the Group has designated personnel to monitor our competitors' activities and formulate effective strategies to preserve our competitive position; (4) maintaining or enhancing the level of occupancy at our agri-products exchange markets, in which the Group launches, from time to time, various marketing campaigns to retain existing tenants and to attract new tenants; (5) obtaining all necessary licenses and permits for the development, construction, operations and acquisition of agri-products exchange markets, in which the Group hires sufficient local staff with professional qualifications to ensure all processes comply with local laws and regulations; and (6) the effect of changes and amendments in the national and local laws and regulations, especially the laws and regulations relating to agri-products exchange markets, on the Group's operations and development, in which the Group maintains a relatively flat organisational structure and high autonomous to enable fast react to the changes.

LITIGATION

References were made to the announcements of the Company dated 11 January 2011, 22 May 2012, 19 June 2014, 4 July 2014, 13 January 2015, 14 January 2015, 28 May 2015, 8 January 2016, 11 January 2016, 24 May 2016, 31 August 2016, 19 April 2017, 11 May 2017 and 27 December 2018 in relation to the civil proceedings (the “**Legal Proceedings**”) in the PRC initiated by Ms. Wang Xiu Qun (“**Ms. Wang**”) and Wuhan Tian Jiu Industrial and Commercial Development Co., Ltd (“**Tian Jiu**”) as plaintiffs against the Company as defendant and joined Wuhan Baisazhou Agricultural By-Product Grand Market Company Limited (“**Baisazhou Agricultural**”) as third party.

Ms. Wang and Tian Jiu alleged that the share transfer agreements in relation to the acquisition of an aggregate of 90% interest in Baisazhou Agricultural by the Company from Ms. Wang as to 70% thereof and Tian Jiu as to 20% thereof (the “**Contended Agreements**”) were forged. They sought an order from the Higher People's Court of Hubei Province, the PRC (the “**Hubei Court**”) that the Contended Agreements were void and invalid from the beginning and should be terminated and claimed against the Company and Baisazhou Agricultural all relevant profits of Baisazhou Agricultural which were attributable to Ms. Wang and Tian Jiu, together with costs of the Legal Proceedings.

The Company received the judgment from the Hubei Court in relation to the Legal Proceedings (the “**Hubei Court Judgment**”) in June 2014. By the Hubei Court Judgment, the Hubei Court dismissed the claims of Ms. Wang and Tian Jiu, and ordered Ms. Wang and Tian Jiu to bear the legal costs of the Legal Proceedings. Ms. Wang and Tian Jiu filed an appeal notice to the Supreme People’s Court of the PRC (the “**Supreme Court**”). On 13 January 2015, the Company received the judgment (the “**Beijing Judgment**”) handed down from the Supreme Court in relation to Ms. Wang and Tian Jiu’s appeal against the Hubei Court Judgment. The Supreme Court ordered that (i) the Hubei Court Judgment be revoked; (ii) the Contended Agreements were void; and (iii) acknowledged that the HK\$1,156 million sale and purchase agreement (the “**SPA**”) shall be the actual agreement being performed by the Company, Ms. Wang and Tian Jiu.

In May 2015, Ms. Wang and Tian Jiu jointly commenced legal proceedings against the Ministry of Commerce (“**MOFCOM**”) of the PRC alleging that MOFCOM failed to discharge its statutory duties for handling their application submitted in January 2015 for revoking the certificate of approval and letter of approval in relation to the Contended Agreements (the “**Application**”). The cases were accepted by the Beijing Second Intermediate People’s Court (the “**Beijing Court**”) in May 2015. The Company and Baisazhou Agricultural then made an application to join the cases as third party. On 8 January 2016, the Company received a judgment dated 31 December 2015 issued by the Beijing Court, by which the Beijing Court demanded MOFCOM to handle the Application again within 30 days.

On 23 May 2016, the Company received a decision (the “**Decision**”) issued by MOFCOM dated 19 May 2016 to the effect, among other things, that its approval issued in November 2007 (the “**Approval**”) in relation to the Contended Agreements shall not be revoked and shall remain to be in force. In making the Decision, MOFCOM considered that the revocation of the Approval as requested by Ms. Wang and Tian Jiu may cause serious damage to the public interest.

Upon the making of the Decision by MOFCOM that the Approval shall not be revoked and shall remain in force in August 2016, the Company noted that Ms. Wang and Tian Jiu had brought another administrative proceedings (the “**Administrative Proceedings**”) to the Beijing Court. According to a writ dated 3 August 2016, Ms. Wang and Tian Jiu requested the Beijing Court to revoke the Decision and to order MOFCOM to make a decision to revoke the Approval. According to a notice issued by the Beijing Court dated 26 August 2016 together with the writ which was served to the Company on 30 August 2016, each of the Company and Baisazhou Agricultural has been added as third party by the Beijing Court to the Administrative Proceedings.

On 18 April 2017, the Company received the judgment of the Beijing Court dated 31 March 2017 (the “**31 March Judgment**”) stating that the request made by Ms. Wang and Tian Jiu to revoke the Decision lacked both legal and factual basis and was not supported by the Beijing Court. Accordingly, the Beijing Court dismissed the application of Ms. Wang and Tian Jiu.

On 10 May 2017, the Company received a notice of appeal dated 8 May 2017 (the “**Notice of Appeal**”). By the Notice of Appeal, Ms. Wang and Tian Jiu appealed against the 31 March Judgment and requested for an order that (a) the 31 March Judgment be set aside and (b) MOFCOM to make a decision to revoke the Approval.

On 30 August 2017, the hearing for the appeal against the 31 March Judgment took place. On 24 December 2018, the Company received the judgment of the Beijing High People's Court dated 20 December 2018 (the “**20 December Judgment**”). By the 20 December Judgment, the Beijing High People's Court dismissed the appeal of Ms. Wang and Tian Jiu and upheld the ruling of the Beijing Court as set out in the 31 March Judgment. In other words, the approval issued by MOFCOM in November 2007 in relation to the Contended Agreements shall not be revoked and remain to be in force, and the Company continues to be the legal and beneficial owner of Baisazhou Agricultural under the PRC Laws.

Separately, in May 2015, in view of the Beijing Judgment, the Company issued a writ against Ms. Wang and Tian Jiu which was accepted by the Hubei Court. The Company sought an order from the Hubei Court that Ms. Wang and Tian Jiu shall assist Baisazhou Agricultural to discharge its contractual duties under the SPA to make the necessary filing with MOFCOM.

On 10 May 2017, Ms. Wang and Tian Jiu applied to the Hubei Court for a freezing order in respect of the Company's 70% interest in Baisazhou Agricultural. According to the order of the Hubei Court dated 26 May 2017 (the “**26 May Order**”), the Hubei Court granted a freezing order as against the Company's 70% interest in Baisazhou Agricultural. The Company then applied for review of the 26 May Order which was dismissed by the Hubei Court on 12 June 2017.

On 26 May 2017, Ms. Wang and Tian Jiu applied to add a counterclaim for return of the Company's 90% interest in Baisazhou Agricultural (70% for Ms. Wang and 20% for Tian Jiu).

On 10 April 2019, in light of the outcome of the legal proceedings against MOFCOM by Ms. Wang and Tian Jiu, the Company applied to the Hubei Court for withdrawal of the Company's claim. On 11 April 2019, the application of the Company was granted. According to the order of the Hubei Court dated 23 December 2019, the counterclaim made by Ms. Wang and Tian Jiu was dismissed by the Hubei Court.

As advised by the PRC legal advisors of the Company, (i) the Supreme Court only ordered the Contended Agreements void, but it did not make any ruling regarding the acquisition; and (ii) the Beijing Judgment will not directly lead to any immediate change of ownership of Baisazhou Agricultural. The Company continues to be the legal owner of Baisazhou Agricultural until and unless the revocation of: (a) the Approval; and (b) the registration of the transfer of shareholding by the Hubei Province Administration for Industry and Commerce. The Company will take all necessary actions in the PRC as advised by its PRC legal advisors in response to the Beijing Judgment.

For other detailed information of the litigation cases, please refer to note 20 to the condensed consolidated financial statements in our second interim report for the twelve months ended 31 December 2019 to be published in compliance with the requirements under the Listing Rules.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 1,159 employees (31 December 2018:1,229), approximately 98% of whom were located in the PRC. The Group's remuneration policy was reviewed periodically by the remuneration committee of the Company and the Board's remuneration is determined by reference to market terms, company performance, and individual qualifications and performance. The Group aimed to recruit, retain and develop competent individuals who were committed to the Group's long-term success and growth. Remunerations and other benefits of employees were reviewed annually in response to both market conditions and trends, and were based on qualifications, experience, responsibilities and performance. The Company has adopted a share option scheme on 3 May 2012 for the primary purpose of providing incentive to selected eligible persons to take up options for their contribution to the Group.

PROSPECTS

During the Period, the trade debate between the United States and the PRC has slowed down the economy growth. However, such debate has little impact on the Group's operation which is mainly focus on domestic market. Looking ahead, the Group will continue to build a nationwide agricultural produce exchange network by leveraging on its leading position in the industry, readily replicable business model, well-advanced management system, information technology infrastructure and quality customer services.

Since the outbreak of the 2019-novel coronavirus (COVID-19), most of our agricultural produce exchange markets keep operating and taking various contingency health and hygiene measures for the sake of the health and safety of all of our employees, tenants and visitors. The outbreak inevitably has caused adverse effect to the performance of our markets. However, the management believes that the effect will be short term. Due to the nature of our operation, the performance of the markets will return to normal once the outbreak ends.

Once again, agricultural development is the PRC central government's first priority policy for the next consecutive years. In 2020, the Central Committee of Communist Party of China and the State Council of China released the "No. 1 Central Document of 2020". The document promises to promote investments in agricultural produce markets, expand agricultural produce network, build logistic infrastructure and storage facilities of agriculture and improve regional cold storage infrastructure. On the other hand, it is expected that the "Belt and Road Initiative" policy will drive the overall growth of the PRC economy and provide a sustainable way for the PRC's continuing development.

In order to capture new business opportunities, the Group has taken further steps to expand its operations in the PRC by cooperating with different partners with "asset light" strategy. Taking the advantage of its leading position in the industry, the Group is confident that this strategy and business model will deliver long-term benefits to the Company and its shareholders as a whole.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the Period.

CORPORATE GOVERNANCE

The Company complied with the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules during the Period, except for the following deviation:

Code provision A.2.1

Mr. Chan Chun Hong, Thomas (“**Mr. Chan**”) currently takes up the roles of both the chairman of the Board and the chief executive officer, which deviates from code provision A.2.1 of the CG Code. Mr. Chan has extensive executive and financial management experience and is responsible for overall corporate planning, strategic policy making and management of operations of the Group which is of great value in enhancing the efficiency to cope with the dynamic business environment. The daily business operation of the Group is delegated to various experienced individuals under the supervision of Mr. Chan. Furthermore, the Board believes that a balance of power and authority is adequately ensured by the operations of the Board which comprises three executive Directors and three independent non-executive Directors with balance of skills and experience appropriate for the Group’s further development. The Company will continue to review such deviation to enhance the best interest of the Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the Period.

AUDIT COMMITTEE

The Audit Committee was established in accordance with the requirements of the Listing Rules, for the purposes of, inter alia, reviewing and providing supervision over the Group’s financial reporting processes, internal controls and risk management. The Audit Committee comprises all the independent non-executive Directors, namely Mr. Wong Ping Yuen, Mr. Ng Yat Cheung and Mr. Lau King Lung, and is chaired by Mr. Wong Ping Yuen. The Audit Committee has reviewed with the management and HLB the unaudited condensed consolidated interim results of the Group for the Period.

PUBLICATION OF SECOND INTERIM RESULTS AND DESPATCH OF SECOND INTERIM REPORT

This second interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.cnagri-products.com). The 2019 second interim report of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders and available on the above websites in due course.

By Order of the Board
CHINA AGRI-PRODUCTS EXCHANGE LIMITED
中國農產品交易有限公司
Chan Chun Hong, Thomas
Chairman and Chief Executive Officer

Hong Kong, 28 February 2020

As at the date of this announcement, the executive Directors are Mr. Chan Chun Hong, Thomas, Mr. Leung Sui Wah, Raymond and Mr. Yau Yuk Shing, and the independent non-executive Directors are Mr. Ng Yat Cheung, Mr. Lau King Lung and Mr. Wong Ping Yuen.