

China Agri-Products Exchange Limited

Stock Code: 149



Interim Report 2008

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Corporate Information

Board of Directors

Executive directors

Fu Jie Pin (*Chairman*)
Yang Zong Lin (*Chief Executive Officer*)
Chen Hong Bo
Zhu Zhou
Yang Wei Yuan

Independent non-executive directors and audit committee members

Yan Feng Xian
James Yin
Jee Wengue

Company Secretary

Sin Ka Man

Auditors

Deloitte Touche Tohmatsu

Solicitors

Hong Kong

Coudert Brothers

Bermuda

Appleby

Principal Bankers

Bank of China
Citic Ka Wah Bank

Principal Registrar and Transfer Agent

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudianna Road
Pembroke HM08
Bermuda

Sub-Registrar and Transfer Agent in Hong Kong

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal Place of Business in Hong Kong

Room 901, 9th Floor
China Merchants Tower
Shun Tak Centre
Sheung Wan
Hong Kong
Tel: (852) 3527 3622
Fax: (852) 3527 3620

Principal Place of Business in PRC

No. 1, Zhang Jia Wan Village,
Chang Zheng Village, Qin Lin Xiang,
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Stock Code

Hong Kong Stock Exchange (Main Board) 149

Review of Operations and Results

The turnover of the Group for the half year ended 30th June 2008 was approximately HK\$118.9 million compared to approximately HK\$11.1 million for the corresponding period in the previous year. The increase was mainly due to a full period's turnover has been consolidated from the newly acquired subsidiary — Wuhan Baisazhou Agricultural By-product Grand Market Company Limited (“Baisazhou”).

The profit attributable to shareholders of the Group for the period was HK\$18.7 million while the loss was HK\$10.7 million for the corresponding period in the previous year.

The Board of the Company did not recommend the payment of any interim dividend but recommended a payment of distribution out of contributed surplus (“distribution”) of HK\$0.02 per ordinary share for the period ended 30.6.2008 (2007:Nil).

Acquisition of Baisazhou

On 5th December 2007, the Group successfully acquired 90% interest in the Baisazhou at a consideration of HK\$1,156 million. Pursuant to the sale and purchase agreements, the Group had issued HK\$360 million convertible notes; HK\$376 million of promissory notes and HK\$420 million cash to the vendors for the settlement of the transaction of which HK\$270 million had already been paid to the vendor before 31st December 2007 and the balance of HK\$150 million required to be settled upon the completion of the annual audit of the Baisazhou for the year ended 31st December 2007. The vendor had guaranteed to the Group that the audited net profit of the Baisazhou for the year ended 31st December 2007 excluding any government subsidies would not be less than HK\$150 million. In the event that such guarantee could not be fulfilled, the vendor would compensate the Group on a dollar-to-dollar basis. As the audited net profit of the Baisazhou for the year ended 31st December 2007 excluding government subsidies was about HK\$75 million, the Group only required to remit HK\$75 million to the vendor and the payment was made in May 2008 and the balance of HK\$75 million was kept in the Group.

Change of Name

With effect from 7th December 2007, both the English and Chinese name of the Company changed from “China Velocity Group Limited” to “China Agri-Products Exchange Limited” and “中國高速集團有限公司” to “中國農產品交易有限公司” for identification purposes only. With effect on 11 January 2008, the share of the Company is traded on the Stock Exchange under its new name. At the same day, the stock short name for trading in the, shares of the Company on the Stock Exchange also changed as “CH AGRI-PROD EX” and “中國農產品交易” to reflect the change of the name. It is considered that such change provides a better identification of the business operations of the Company.

Conversion of Convertible Notes

On 7th January 2008, the Group received a notice from the Convertible Notes holder to convert the total amount of HK\$360 million convertible notes into 180 million company's shares at HK\$2 each. With the completion of the conversion, the Group does not have any outstanding Convertible Notes and the total number of the shares of the Group has been increased to 765,658,596 shares.

Interim Dividend

The Board of the Company did not recommend the payment of any interim dividend (2007: Nil) but recommended a payment of distribution out of contributed surplus (“distribution”) of HK\$0.02 per ordinary share for the period ended 30th June 2008 (2007: Nil). The distribution will be paid on or about 17th October 2008 to those shareholders whose names appear on the register of members at the close of business on 8th October 2008.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 9th October 2008 to Tuesday, 14th October 2008, both days inclusive, during which no transfer of shares of the Company will be effected. In order to qualify for the distribution, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Branch Share Registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4 p.m. on Wednesday, 8th October 2008.

Employees and Remuneration Policies

As at 30th June 2008, the Group had approximately 500 employees in Hong Kong and the PRC. Remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance.

Liquidity and Financial Resources

As at 30th June 2008, the Group had cash and bank balances amounted to approximately HK\$281.7 million (31st December 2007: HK\$260.9 million) while the total assets and net assets were approximately HK\$1,878.2 million (31st December 2007: HK\$1,835.8 million) and HK\$1,046.8 million (31st December 2007: HK\$677.1 million) respectively. The Group’s gearing ratio as at 30th June 2008 was 0.5 (31st December 2007: 0.8), being a ratio of total bank and other borrowings and promissory notes of approximately HK\$570.0 million (31st December 2007: HK\$545.5 million) to shareholders’ funds of approximately HK\$1,046.8 million (31st December 2007: HK\$677.1 million).

As at 30th June 2008, Baisazhou pledged all of the land use rights in respect of the investment properties to secure the bank loan granted to the Company itself.

The Group did not enter into any foreign exchange contracts, interest or currency swaps or other financial derivatives.

Borrowing requirements are not seasonal as they tend to follow the pattern of capital expenditure and investment.

Management team

In order to strengthen the internal control and the business development of the Group, the following directors and management staff have been designated to have the following duties and responsibilities:

Mr Yang Wei Yuan, the director and Chief Operating Officer, and Mr Zhu Zhou, the director, are the key personnel to manage the business in Baisazhou and the operations in Hong Kong. They both are responsible for the administration of the Group's business, as well as to formulate and implement company policies, an answerable to the board of directors in relation to the overall operation of the Group.

Mr. Yang Wei Yuan, aged 40, joined the Group as an executive director in December 2007. He holds a Bachelor Degree of Chinese from the Anhui University. He has over 10 years experience in management.

Mr. Zhu Zhou, aged 34, joined the Group as an executive director in July 2007. He holds a Bachelor Degree and a Doctor Degree of Economic Management of Agriculture and Forestry from the Huazhong Agricultural University; a Master Degree of Business and Administration from the University of Iowa of United States and a Doctor Degree of Business and Administration from the Renmin University of China. He has over 10 years experience in management.

Mr Zhou Guo Bin, the general manager, and Mr Wan Hang Bing, the financial controller, are the key management staff in managing the daily operation in Baisazhou which including the implementation of the electronic transaction system and development and expansion of existing and new product market.

Mr Zhou Guo Bin, aged 39, joined the Group as the General Manager of Wuhan Baisazhou Agricultural By-product Grand Market Company Limited in 2007. He holds a Bachelor Degree of Audit from the Wuhan University. He has over 8 years experience in investment banking and over 4 years experience in management.

Mr. Wan Hang Bing, aged 34, joined the Group as the Financial Controller of Wuhan Baisazhou Agricultural By-product Grand Market Company Limited in March 2008. He holds a Bachelor Degree from the Zhongnan University of Economics and Law. He is a Certified Public Accountant in PRC. He has over 12 years experience in auditing, accounting and finance.

Prospects and Plan for the future

During the period, the Group mainly engages in the business of property investment and development; property rental and the food and beverage business in the PRC. With the acquisition of the Baisazhou, both the income and profit of the group has significantly increased. In the second half of 2008, the directors believe that the government measures will continually come up to stabilize food prices, regardless of whether agri-products price will stabilize, the industry participants from upstream to downstream should all be benefit. In the case of food price continue to rise, the Baisazhou benefit from higher pricing and increase the respective income from the transaction levy. On the other hand, if the government stabilize prices by aggressively boosting supply resulting in volume growth in agri-products. This will increase the demand for Baisazhou trading space and services.

After re-structuring of the management team, the directors believe that top level management can have a better communication between the Hong Kong and the PRC office which can enhance a harmonic environment and a better prospect to the future of the company.

Other Information

Substantial Shareholders

As at 30th June, 2008, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance (“SFO”) showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long position

Ordinary share of US\$0.02 each of the Company

	Capacity	Number of Shares			Percentage of issued share capital	Note
		Direct interest	Deemed interest	Total interest		
Velocity International Limited (the “Velocity”)	Beneficial owner	207,765,080	—	207,765,080	27.1%	a
Chan Yeung Nam	Interest of a controlled corporation	—	207,765,080 (through 100% direct interest in Velocity)	207,765,080	27.1%	a
Wang Xiu Qun	Beneficial owner	180,000,000	—	180,000,000	23.5%	

Notes:

- (a) Mr. Chan Yeung Nam holds the entire beneficial interest in Velocity and Mr. Chan Yeung Nam is accordingly deemed to be interested in 207,765,080 shares in the Company.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 30th June, 2008.

Directors’ Interests in Securities

Other than as disclosed in the section “Substantial shareholders”, none of the directors, chief executives, nor their associates, had any interests or short positions in any shares or debentures of the Company or any of its associated corporation at 30th June, 2008, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Director of Listed Companies.

Other than as disclosed above, none of the directors, chief executives of the Company or their associates had any right to subscribe for securities of the Company, or had exercised any such right during the period under review, and at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Options Scheme

The following table discloses movements in the Company's share options during the six months period:

No share options under the Scheme were granted and the following share options were outstanding at the beginning and at the end of the six months period:

Capacity	Date of grant	Exercisable period	Exercise price (HK\$)	Number of share options		
				Outstanding at the beginning of the period	Exercised during the period	Outstanding at the end of the period
Employees	4.6.2007	05/06/2007 – 04/06/2012	2.48	5,300,000	–	5,300,000

Purchase, Sale or Redemption of Listed shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th June, 2008.

Compliance with the Code on Corporate Governance Practices

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the six months ended 30th June, 2008 except for the following deviation: –

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. The current independent non-executive directors of the Company are not appointed for a specific term. However, all directors (including executive and non-executive) of the Company are subject to retirement by rotation at the annual general meeting in accordance with Bye-Law 98 of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance are no less than those in the Code.

Compliance with the Model Code

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. The Company has confirmed with all directors that they had complied with the required standard set out in the Model Code throughout the six months ended 30th June, 2008.

Review by Audit Committee

The Group's interim financial report for the six months ended 30th June, 2008 have been reviewed by the audit committee which comprises three independent non-executive directors of the Company and by the Company's auditors, Deloitte Touche Tohmatsu.

Appreciations

The Board would like to take this opportunity to thank the Company's shareholders for their continual support and wish to extend its sincere appreciation for the efforts and loyalty of our staff.

By Order of the Board
China Agri-Products Exchange Limited
Fu Jie Pin
Chairman

Hong Kong, 24th September, 2008.

Report on Review of Interim Financial Information



TO THE BOARD OF DIRECTORS OF CHINA AGRI-PRODUCTS EXCHANGE LIMITED

中國農產品交易有限公司

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 10 to 22 which comprises the condensed consolidated balance sheet of China Agri-Products Exchange Limited as of 30th June, 2008 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review 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 Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our conclusion, we draw attention to note 1 to the condensed consolidated financial statements, which indicates that as of 30th June, 2008, the Group had current liabilities which exceeded its current assets by approximately HK\$204.0 million. These conditions, along with other matters as set forth in note 1 to the condensed consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

24th September, 2008

Condensed Consolidated Income Statement

For the six months ended 30th June, 2008

	NOTE	Six months ended 30th June,	
		2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Revenue	3	118,904	11,069
Cost of sales		(17,953)	(6,964)
Gross profit		100,951	4,105
Other income		3,063	6
Fair value change on conversion options embedded in convertible notes		9,944	—
Impairment loss on goodwill	10	(17,000)	—
Administrative expenses		(15,915)	(14,384)
Other expenses		(4,422)	(397)
Finance costs	4	(28,218)	—
Profit (loss) before taxation		48,403	(10,670)
Income tax expense	5	(23,646)	(2)
Profit (loss) for the period	6	24,757	(10,672)
Attributable to:			
Equity holders of the Company		18,716	(10,664)
Minority interests		6,041	(8)
		24,757	(10,672)
Earnings (loss) per share	8		
Basic		HK\$0.02	HK\$(0.04)
Diluted		HK\$0.01	N/A

Condensed Consolidated Balance Sheet

At 30th June, 2008

	NOTE	30.6.2008 HK\$'000 (unaudited)	31.12.2007 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	109,802	37,654
Investment properties	9	642,459	604,210
Goodwill	10	814,066	900,712
		1,566,327	1,542,576
Current assets			
Inventories		1,007	1,172
Trade and other receivables	11	29,131	31,193
Bank balances and cash		281,717	260,894
		311,855	293,259
Current liabilities			
Trade and other payables	12	175,507	217,150
Derivative financial instruments	13	—	49,869
Taxation liabilities		74,572	52,684
Bank and other borrowings		265,769	71,628
		515,848	391,331
Net current liabilities		(203,993)	(98,072)
Total assets less current liabilities		1,362,334	1,444,504
Non-current liabilities			
Convertible notes	13	—	287,957
Bank and other borrowings		17,051	194,355
Promissory notes		287,229	279,575
Deferred tax liabilities		11,301	5,510
		315,581	767,397
		1,046,753	677,107
Capital and reserves			
Share capital	14	119,443	91,363
Share premium and reserves		885,232	551,210
Equity attributable to equity holders of the Company		1,004,675	642,573
Minority interests		42,078	34,534
		1,046,753	677,107

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2008

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note a)	Shareholders' contribution HK\$'000 (Note b)	Contributed surplus HK\$'000 (Note c)	Share options reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1st January, 2007 (audited)	43,276	–	945	664	2,096,598	–	109	(2,093,928)	47,664	13,847	61,511
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	68	–	68	–	68
Loss for the period	–	–	–	–	–	–	–	(10,664)	(10,664)	(8)	(10,672)
Total recognised income and expenses for the year	–	–	–	–	–	–	68	(10,664)	(10,596)	(8)	(10,604)
Recognition of equity settled share based payments	–	–	–	–	–	5,171	–	–	5,171	–	5,171
Issue of shares	273	1,171	–	–	–	(183)	–	–	1,261	–	1,261
At 30th June, 2007 (unaudited)	43,549	1,171	945	664	2,096,598	4,988	177	(2,104,592)	43,500	13,839	57,339
Exchange difference arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	2,633	–	2,633	285	2,918
Loss for the period	–	–	–	–	–	–	–	(1,986)	(1,986)	1,036	(950)
Total recognised income and expenses for the period	–	–	–	–	–	–	2,633	(1,986)	647	1,321	1,968
Exercise of share options	1,287	6,270	–	–	–	(1,434)	–	–	6,123	–	6,123
Issue of shares	46,527	567,029	–	–	–	–	–	–	613,556	–	613,556
Transaction cost attributable to issue of shares	–	(21,253)	–	–	–	–	–	–	(21,253)	–	(21,253)
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	19,374	19,374
At 31st December, 2007	91,363	553,217	945	664	2,096,598	3,554	2,810	(2,106,578)	642,573	34,534	677,107
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	–	–	14,829	–	14,829	1,503	16,332
Profit for the period	–	–	–	–	–	–	–	18,716	18,716	6,041	24,757
Total recognised income for the period	–	–	–	–	–	–	14,829	18,716	33,545	7,544	41,089
Conversion of convertible notes	28,080	300,477	–	–	–	–	–	–	328,557	–	328,557
At 30th June, 2008 (unaudited)	119,443	853,694	945	664	2,096,598	3,554	17,639	(2,087,862)	1,004,675	42,078	1,046,753

Note:

- The capital reserve of the Group represents capital redemption reserve.
- The shareholders' contribution represents deemed contribution arising from non-current interest-free loan granted by the former ultimate holding company.
- The contributed surplus of the Group represents (i) aggregate of the difference between the nominal amount of the share capital of the subsidiaries at the date on which they were acquired by the Group and the nominal amount of the share capital issued as consideration for the acquisition and (ii) contribution arising from capital reorganisation and group reorganisation in 1995.

Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2008

	Six months ended 30th June,	
	2008 HK\$'000 (unaudited)	2007 HK\$'000 (unaudited)
Net cash from (used in) operating activities	39,827	(2,968)
Net cash used in investing activities:		
Purchase of property, plant and equipment	(74,474)	—
Proceeds from shortfall of Profit Guarantee (as defined in note 10)	69,646	—
Proceeds from disposal of property, plant and equipment	301	—
Deposit paid for acquisition of a subsidiary	—	(10,271)
Other investing cash flows	(448)	(1)
	(4,975)	(10,272)
Net cash (used in) from financing activities:		
Interest paid	(19,889)	—
Interest received	3,063	—
Advance from ultimate holding company	—	14,361
Proceeds from issue of shares	—	1,260
	(16,826)	15,621
Net increase in cash and cash equivalents	18,026	2,381
Cash and cash equivalents at 1st January,	260,894	2,140
Effect of foreign exchange rate changes	2,797	9
Cash and cash equivalents at 30th June, representing bank balances and cash	281,717	4,530

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30th June, 2008

1. BASIS OF PREPARATION

The condensed consolidated 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 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the consolidated net current liabilities of approximately HK\$204.0 million at 30th June, 2008. In particular, the Group has bank borrowings of HK\$183.9 million which are repayable in May 2009. The directors are now in negotiation with the banks to extend and reschedule the repayment of the said bank borrowings. Provided that the Group can extend and reschedule the repayment of the bank borrowings, the directors are satisfied that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the condensed consolidated financial statements are prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st January 2008.

HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised or amended standards and interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 and HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) - INT 13	Customer Loyalty Programmes ³
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹ Effective for accounting periods beginning on or after 1st January, 2009

² Effective for accounting periods beginning on or after 1st July, 2009

³ Effective for accounting periods beginning on or after 1st July, 2008

⁴ Effective for accounting periods beginning on or after 1st October, 2008

2. PRINCIPAL ACCOUNTING POLICIES (continued)

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into the following divisions. These divisions are the basis which the Group reports its primary segment information.

An analysis of the Group's turnover and contribution to operating results by business segment is presented below:

Six months ended 30th June, 2008

	Property rental and management HK\$'000	Restaurant operation HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	106,470	12,434	—	118,904
RESULT				
Segment results	72,592	13	(12)	72,593
Unallocated corporate expenses				(8,979)
Other income				3,063
Fair value change on conversion options embedded in convertible notes				9,944
Finance costs				(28,218)
Profit before taxation				48,403
Income tax expense				(23,646)
Profit for the period				24,757

Six months ended 30th June, 2007

	Property rental and management HK\$'000	Restaurant operation HK\$'000	Others HK\$'000	Consolidated HK\$'000
REVENUE				
External sales	—	11,069	—	11,069
RESULT				
Segment results	—	(262)	(491)	(753)
Unallocated corporate expenses				(8,076)
Impairment loss recognised on goodwill	—	(1,847)	—	(1,847)
Other income				6
Loss before taxation				(10,670)
Income tax expense				(2)
Loss for the period				(10,672)

4. FINANCE COSTS

	Six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Interest on bank and other borrowing wholly repayable within five years	10,540	—
Promissory notes	9,349	—
Effective interest on convertible notes	675	—
Effective interest on promissory notes	7,654	—
	28,218	—

5. INCOME TAX EXPENSE

	Six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Current tax:		
PRC Enterprise Income Tax	18,202	2
Deferred tax	5,444	—
Income tax expense	23,646	2

On 16th March 2007, the People's Republic of China (the "PRC") promulgated the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December 2007, the State Council of the PRC issued Implementation Regulation of the New Law. The New Law and the Implementation Regulation have changed the tax rate from 33% to 25% for the Group's subsidiaries from 1st January 2008.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Company and its subsidiaries had no assessable profit in both periods.

6. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Profit (loss) for the period has been arrived at after charging the following items:		
Depreciation	2,023	588
Amortisation of prepaid lease payments	—	480
Impairment loss on goodwill	17,000	—

7. DIVIDENDS

No dividends were paid during the period.

The directors have determined that a distribution out of contributed surplus of HK\$0.02 per share (2007: Nil) should be paid to the shareholders of the Company whose names appear in the Register of Members on 8th October, 2008.

8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to equity holders of the Company is based on the following data:

	Six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Earnings (Loss)		
Earnings (loss) for the purpose of basic earnings per share attributable to equity holders of the Company	18,716	(10,664)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	675	—
Fair value change on conversion options embedded in convertible notes	(9,944)	—
Earnings (loss) for the purpose of diluted earnings per share	9,447	(10,664)

Number of shares

	Six months ended 30th June,	
	2008 '000	2007 '000
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	758,736	277,631
Effect of dilutive potential ordinary shares:		
Conversion of convertible notes	6,923	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	765,659	N/A

The computation of diluted earnings per share does not assume the conversion of the Company's share option for the six months ended 30th June, 2008 as the exercise price of the Company's options was higher than the average market price for shares.

No diluted loss per share has been presented for the six months ended 30th June, 2007 as the exercise of the share options would result in a decrease in the loss per share for the period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group acquired property, plant and equipment at a cost of approximately HK\$74,474,000 (2007: HK\$686,000).

During the period, the Group's exchange realignment on investment properties amounted to HK\$38,249,000. The Group's investment properties were fair valued by the directors at 30th June, 2008 and there is no material difference between the carrying amount of the investment properties in RMB and its fair value in RMB at 30th June, 2008.

10. GOODWILL

	HK\$'000
COST	
At 1st January, 2008	903,859
Adjustments to the cost of an acquisition effected in the prior period	(69,646)
At 30th June, 2008	834,213
IMPAIRMENT	
At 1st January, 2008	3,147
Impairment loss recognised in the period	17,000
At 30th June, 2008	20,147
CARRYING AMOUNTS	
At 30th June, 2008	814,066
At 31st December, 2007	900,712

In May 2007, the Company entered into conditional sales and purchase agreements with independent third parties, Ms. Wang Xiu Qun ("Ms. Wang") and Wuhan Tian Jiu Industrial and Commercial Development Co., Limited (collectively referred to as the "Vendor") for their respective 70% and 20% interest in Wuhan Baisazhou Agricultural By-product Grand Market Co., Limited ("Baisazhou") for consideration of HK\$900 million and HK\$256 million, respectively. The completion date of the agreements was 5th December, 2007, which is also the acquisition date for accounting purposes.

The initial accounting for the acquisition of Baisazhou involve identifying, and then determining the fair values to be assigned to, the identifiable assets, liabilities and contingent liabilities and the cost of the business combination. The initial accounting for the acquisition has been determined provisionally by 31 December 2007, awaiting for the finalization of identification of and fair values of identifiable assets and liabilities of Baisazhou. Hence, the goodwill at 30th June, 2008 may comprise certain identifiable intangible assets and may be subject to further changes upon finalisation of initial accounting.

According to the sales and purchase agreements, the total consideration of HK\$1,156 million is subject to adjustments based on the audited profit after taxation of Baisazhou for the year ended 31st December, 2007. Ms. Wang has guaranteed to the Company that the audited profit after taxation of Baisazhou for the year ended 31st December, 2007, will not be less than HK\$150 million ("Profit Guarantee"). During the period, the Group obtained the audited financial statements of Baisazhou and the audited profit after taxation of Baisazhou for the year ended 31st December, 2007 was below HK\$150 million. During the period, the Group received cash of HK\$69.6 million from Ms. Wang with respect to the Profit Guarantee. The related goodwill has been adjusted for the same amount accordingly.

The carrying amounts of goodwill (net of impairment loss) as at 30th June, 2008 and 31st December, 2007 is attributed to the business of property rental and management of agricultural products exchange in Wuhan.

During the period, the Group recognised an impairment loss of HK\$17 million in relation to goodwill arising on acquisition of Baisazhou.

10. GOODWILL (continued)

The recoverable amount of goodwill has been determined on the basis of a value in use calculations. Its recoverable amounts is based on certain key assumptions. The value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 16.6%. The set of cash flow beyond the 5-year period is extrapolated using a steady 2.9% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Cash flow projections during the budget period are also based on the expected property rental income, income from ancillary services and commission income from operation of agricultural exchange market during the budget period. Expected cash inflows/outflows, which include the expected property rental income, income from ancillary services and commission income from operation of agricultural exchange market, have been determined based on past performance and management's expectations for the market development.

11. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranging from 30 days to 60 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$20,372,000 (31.12.2007: HK\$20,492,000) and their aged analysis at the balance sheet date is as follows:

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
0-90 days	22,658	20,492
Trade receivables	22,658	20,492
Other receivables	6,473	10,701
	29,131	31,193

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$1,209,000 (31.12.2007: HK\$1,395,000) and their aged analysis at the balance sheet date is as follows:

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
0 – 90 days	1,209	—
Over 90 days	—	1,395
	1,209	1,395
Construction payables	46,801	71,178
Rental receipt in advance	24,151	49,881
Other tax payables	19,846	18,559
Other payables and accruals	83,500	76,137
	175,507	217,150

13. CONVERTIBLE NOTES

(a) Convertible Notes

On 5th December, 2007, the Company entered into a subscription agreement with Ms. Wang (the “subscriber”), an independent third party, for the issue of convertible notes with aggregate principal amount of HK\$360,000,000 as part of the consideration for the acquisition of Baisazhou (“Convertible Notes”). The Convertible Notes are interest-free and are due on the maturity date, which is the date falling on the second anniversary from the date of issue of the Convertible Notes (i.e. 5th December, 2009). The conversion price is HK\$2.00 per share at the time of subscription and is subject to adjustments including consolidation on subdivision of shares, capitalisation of profits or reserves, capital distribution in cash or specie or subsequent issue of securities in the Company. A total of 180,000,000 shares will be allotted and issued upon the conversions in full of the Convertible Notes (“Convertible Shares”). The Convertible Shares will be subjected to a lock up period of twelve months from the date of issue of Convertible Notes.

At 31st December, 2007, Convertible Notes with a carrying amount of HK\$287,957,000 (principal amount of HK\$360,000,000) remained outstanding.

On 8th January, 2008, the subscriber converted all the Convertible Notes of HK\$360,000,000 into 180,000,000 ordinary shares of US\$0.02 each in the Company at a conversion price of HK\$2.00.

The movement of the liability component of the Convertible Notes is set out below:

	Six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
At the beginning of the period	287,957	—
Effective interest expenses	675	—
Conversion during the period	(288,632)	—
At the end of the period	—	—

During the period ended 30th June, 2008, the effective interest rate of the Convertible Notes was 12.23% (2007: 12.23%).

(b) Derivative financial instruments

	Six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
At the beginning of the period	49,869	—
Changes in fair value	(9,944)	—
Derecognised during the period upon conversion of Convertible Notes	(39,925)	—
At the end of the period	—	—

The embedded derivative were derecognised on 8th January, 2008, which was the date the subscriber fully exercised the conversion options.

The embedded derivatives were fair valued by an independent valuer, LCH Surveyors Limited, on 8th January, 2008. The changes in fair value of approximately HK\$9,944,000 has been credited to the condensed consolidated income statement for the period ended 30th June, 2008.

13. CONVERTIBLE NOTES *(continued)*

(b) Derivative financial instruments *(continued)*

The fair values were calculated using the Black-Scholes option pricing model. The inputs used in the model in determining the fair values at the respective dates were as follows:

	8th January, 2008 HK\$'000	31st December, 2007 HK\$'000
Share price	HK\$1.36	HK\$1.49
Exercise price	HK\$2.00	HK\$2.00
Expected life	2 years	2 years
Risk-free rate	2.58%	2.58%
Expected dividend yield	0%	0%
Volatility	59.85%	59.85%

14. SHARE CAPITAL

	Number of shares	Share capital US\$'000
Ordinary shares of US\$0.02 each:		
Authorised		
At 1st January, 2007, 31st December, 2007 and 30th June, 2008	19,000,000,000	380,000
HK\$'000		
Issued and fully paid		
At 1st January, 2007	277,408,596	43,276
Exercise of share options	1,750,000	273
At 30th June, 2007	279,158,596	43,549
Exercise of share options	6,500,000	1,014
Issue of shares	300,000,000	46,800
At 31st December, 2007	585,658,596	91,363
Conversion of convertible notes (Note 13)	180,000,000	28,080
At 30th June, 2008	765,658,596	119,443

The 180,000,000 ordinary shares issued upon conversion of the Convertible Notes are subject to a lock up period of twelve months and have the same rights, preferences and restrictions as the other ordinary shares in all other respects.

15. CAPITAL COMMITMENTS

	30.6.2008 HK\$'000	31.12.2007 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of:		
— property, plant and equipment	57,746	54,308
— construction in progress	21,602	25,112
	79,348	79,420

16. CONTINGENT LIABILITIES

At 30th June, 2008, Baisazhou has granted guarantee to banks with respect to bank borrowings raised by a former shareholder of Baisazhou for the amount of RMB25 million (equivalent to HK\$26.7 million) (2007: HK\$26.7 million).

17. PLEDGE OF ASSETS

At 30th June, 2008, the Group had pledged investment properties with a carrying amount of HK\$190,721,000 (31.12.2007: HK\$179,366,000) to secure the Group's bank borrowings.

18. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors as key management of the Group during the period was as follows:

	Six months ended 30th June,	
	2008 HK\$'000	2007 HK\$'000
Short-term benefits	1,995	944
Post-employment benefits	6	12
	2,001	956

The remuneration of key management personnel, which were the directors of the Company, were decided by the Board of Directors, who are authorised by the shareholders, having regard to the performance of the individuals and market trends.