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Interim Report



Madex International (Holdings) Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00231)

CORPORATE INFORMATION

Board of Directors

Executive Directors:

Mr. Liang Wenguan (*Chairman*)
Mr. Zhang Guodong

Non-executive Director:

Ms. Liang Huixin

Independent Non-executive Directors:

Dr. Dong Ansheng
Mr. Hung Hing Man
Dr. Tam Hok Lam, Tommy, *JP*

Audit Committee

Mr. Hung Hing Man
(*Committee Chairman*)
Dr. Dong Ansheng
Dr. Tam Hok Lam, Tommy, *JP*

Remuneration Committee

Dr. Tam Hok Lam, Tommy, *JP*
(*Committee Chairman*)
Mr. Liang Wenguan
Dr. Dong Ansheng
Mr. Hung Hing Man

Nomination Committee

Dr. Dong Ansheng
(*Committee Chairman*)
Mr. Liang Wenguan
Mr. Hung Hing Man
Dr. Tam Hok Lam, Tommy, *JP*

Authorised Representatives

Mr. Zhang Guodong
Mr. Chan Kwan Pak

Company Secretary

Mr. Chan Kwan Pak

Auditors

Pan-China (HK) CPA Limited
20/F, Hong Kong Trade Centre
161-167 Des Voeux Road Central
Hong Kong

Principal Bankers

Bank of Communications Co. Ltd.
(Hong Kong Branch)
Bank of East Asia, Limited

Principal Registrar and Transfer Office

Butterfield Fulcrum Group
(Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Registrar and Transfer Office

Tricor Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

Registered Office

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Head Office and Principal Place of Business

Suite 3005, 30/F, West Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Website

www.madex.com.hk

Stock Code

00231

The board (the "Board") of directors (the "Directors") of Madex International (Holdings) Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2012, together with the comparative figures for the corresponding period in 2011 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended	
		30.6.2012 (Unaudited) HK\$'000	30.6.2011 (Unaudited) HK\$'000
Revenue	3	13,364	14,517
Cost of sales		(3,322)	(3,513)
Gross profit		10,042	11,004
Other revenue		169	157
Bad debt recovered		–	1,157
Distribution costs		–	(477)
Administrative expenses		(18,456)	(18,676)
Finance costs	4	(20,037)	(3,906)
Fair value change on investment properties	9	9,705	51,183
Fair value change on derivative financial assets	15	1,801	–
Fair value change on derivative financial liabilities	15	(43,962)	–
Fair value change on contingent consideration	16	(43,823)	–
Share of profits of a jointly controlled entity		1,754	1,753
(Loss) profit before tax		(102,807)	42,195
Income tax expenses	5	(2,427)	(12,796)
(Loss) profit for the period	6	(105,234)	29,399
(Loss) profit for the period attributable to:			
Owners of the Company		(104,871)	29,294
Non-controlling interests		(363)	105
		(105,234)	29,399
(Loss) earnings per share	8		
Basic and diluted		(1.143) cents	0.745 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30.6.2012 (Unaudited) HK\$'000	30.6.2011 (Unaudited) HK\$'000
(Loss) profit for the period	(105,234)	29,399
Other comprehensive (expense) income		
Exchange differences arising on translation of foreign operations	(19,243)	5,330
Total comprehensive (expense) income for the period	(124,477)	34,729
Total comprehensive (expense) income attributable to:		
Owners of the Company	(124,069)	34,548
Non-controlling interests	(408)	181
	(124,477)	34,729

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	30.6.2012 (Unaudited) HK\$'000	31.12.2011 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		33,917	35,345
Prepaid lease payments		4,513	4,632
Investment properties	9	2,926,886	2,898,148
Intangible asset	10	43,275	45,491
Interest in a jointly controlled entity		41,972	40,218
		3,050,563	3,023,834
Currents assets			
Inventories		909	598
Trade and other receivables	11	15,956	18,937
Pledged bank balances		4,108	4,031
Derivative financial assets	15	22,200	57,660
Bank balances and cash		2,223	11,646
		45,396	92,872
Current liabilities			
Other payables	12	195,381	193,488
Borrowings	13	130,819	96,161
Tax liabilities		210	210
Amount due to related parties	14	1,875	1,856
Amount due to a shareholder	14	59,595	34,031
Amount due to a jointly controlled entity	14	7,274	5,274
Derivative financial liabilities	15	144,047	282,904
		539,201	613,924
Net current liabilities		(493,805)	(521,052)
Total assets less current liabilities		2,556,758	2,502,782

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*(continued)*

	<i>Note</i>	30.6.2012 (Unaudited) HK\$'000	31.12.2011 (Audited) HK\$'000
Capital and reserves			
Share capital	17	542,218	415,366
Reserves		781,459	697,452
		1,323,677	1,112,818
Equity attributable to owners of the Company		4,331	4,739
Non-controlling interests			
Total equity		1,328,008	1,117,557
Non-current liabilities			
Borrowings	13	429,055	451,330
Deferred tax liabilities		437,554	440,577
Convertible notes	15	105,912	280,912
Provision for contingent consideration	16	256,229	212,406
		1,228,750	1,385,225
		2,556,758	2,502,782

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Share capital	Share premium	Capital redemption reserve	Translation reserve	Accumulated losses	Total	Non- controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	196,667	130,594	52	20,084	(54,567)	292,830	4,500	297,330
Profit for the year	-	-	-	-	49,824	49,824	80	49,904
Other comprehensive income	-	-	-	48,455	-	48,455	159	48,614
Total comprehensive income for the year	-	-	-	48,455	49,824	98,279	239	98,518
Shares issued pursuant to acquisition of net assets through an acquisition of the Acquired Group	218,699	503,010	-	-	-	721,709	-	721,709
At 31 December 2011 and 1 January 2012	415,366	633,604	52	68,539	(4,743)	1,112,818	4,739	1,117,557
Loss for the period	-	-	-	-	(104,871)	(104,871)	(363)	(105,234)
Other comprehensive expense	-	-	-	(19,198)	-	(19,198)	(45)	(19,243)
Total comprehensive expense for the period	-	-	-	(19,198)	(104,871)	(124,069)	(408)	(124,477)
Shares issued upon the conversion of the First Convertible Notes during the period (note 17)	126,852	208,076	-	-	-	334,928	-	334,928
At 30 June 2012	542,218	841,680	52	49,341	(109,614)	1,323,677	4,331	1,328,008
	Share capital	Share premium	Capital redemption reserve	Translation reserve	Accumulated losses	Total	Non- controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011	196,667	130,594	52	20,084	(54,567)	292,830	4,500	297,330
Profit for the period	-	-	-	-	29,294	29,294	105	29,399
Other comprehensive income	-	-	-	5,254	-	5,254	76	5,330
Total comprehensive income for the period	-	-	-	5,254	29,294	34,548	181	34,729
At 30 June 2011	196,667	130,594	52	25,338	(25,273)	327,378	4,681	332,059

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30.6.2012 (Unaudited) HK\$'000	30.6.2011 (Unaudited) HK\$'000
Net cash generated from operating activities	1,408	3,562
Net cash used in investing activities	(50,924)	(6,850)
Net cash generated from (used in) financing activities	40,170	(16,898)
Net decrease in cash and cash equivalents	(9,346)	(20,186)
Cash and cash equivalents at beginning of the period	11,646	28,467
Effect of foreign exchange rate changes	(77)	164
Cash and cash equivalents at end of the period	2,223	8,445

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2012

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 the Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Principal accounting policies

The condensed consolidated financial statements have been prepared under the historical cost basis except for investment properties and certain financial instruments, which are measured at fair value.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the 6 months ended 30 June 2012 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Statements ("HKFRS") issued by the HKICPA.

Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets
Amendments to HKAS 12	Deferred tax: Recovery of underlying assets

The adoption of those HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

3. Segment information

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performances focuses more specifically on the nature of industries.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

Property leasing	Property leased for rental income
Right to receive royalty fee	Royalty fee related to the royalty right leasing
Trading of goods	Trading of goods

3. Segment information (continued)

The following is an analysis of the Group's revenue and results by reportable segments for the period.

	Property leasing		Right to receive royalty fee		Trading of goods		Total	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Revenue	9,641	9,542	3,704	3,550	19	1,425	13,364	14,517
Segment profit/(loss)	11,359	57,096	(1,060)	(631)	(752)	87	9,547	56,552
Unallocated corporate expenses							(94,228)	(13,512)
Unallocated other revenue							157	151
Bad debt recovered							-	1,157
Share of profits of a jointly controlled entity							1,754	1,753
Finance costs							(20,037)	(3,906)
(Loss) profit before tax							(102,807)	42,195

4. Finance costs

	Six months ended	
	30.6.2012 HK\$'000	30.6.2011 HK\$'000
Interest on:		
– bank borrowings and other interest bearing borrowings wholly repayable within five years	2,332	476
– bank borrowings and other interest bearing borrowings wholly repayable over five years	3,335	3,430
– effective interest expenses on convertible notes (note 15)	14,370	–
Borrowing costs incurred in connection with bank borrowings for investment properties under redevelopment	15,386	–
Total borrowing costs	35,423	3,906
Less: amounts capitalised	(15,386)	–
	20,037	3,906

5. Income tax expenses

No provision for Hong Kong Profits tax has been made for the period as the Group did not generate any assessable profits arising in Hong Kong during the period (1.1.2011 to 30.6.2011: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the respective jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended	
	30.6.2012 HK\$'000	30.6.2011 HK\$'000
Current tax		
PRC Enterprise Income Tax	-	-
Deferred tax		
Fair value changes on investment properties	2,427	12,796
	2,427	12,796

6. (Loss) profit for the period

(Loss) profit for the period has been arrived at after charging/(crediting):

	Six months ended	
	30.6.2012 HK\$'000	30.6.2011 HK\$'000
Amortisation of an intangible asset (included in cost of sales)	1,736	1,663
Amortisation of prepaid lease payments	69	66
Depreciation for property, plant and equipment	1,470	1,410
Total depreciation and amortisation	3,275	3,139
Interest income	(157)	(151)

7. Dividend

The Board of the Company does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2012 (1.1.2011 to 30.6.2011: Nil).

8. (Loss) earnings per share

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

	Six months ended	
	30.6.2012	30.6.2011
	HK\$'000	HK\$'000
(Loss) earnings		
(Loss) profit for the period attributable to owners of the Company	(104,871)	29,294
	30.6.2012	30.6.2011
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	9,174,236,898	3,933,329,504

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes for the 6 months ended 30 June 2012 since their exercise would result in a decrease in loss per share

9. Investment properties

	Completed investment property in the PRC	Investment properties under redevelopment in the PRC	Total
	<i>(note (a))</i>	<i>(note (b))</i>	
	HK\$'000	HK\$'000	HK\$'000
Fair value			
As at 1 January 2011	367,811	–	367,811
Acquired on an acquisition of net assets through an acquisition of the Acquired Group	–	2,031,561	2,031,561
Additions	2,373	262,583	264,956
Exchange adjustments	17,446	61,216	78,662
Net increase in fair value recognized in profit or loss	60,518	94,640	155,158
As at 31 December 2011 and 1 January 2012	448,148	2,450,000	2,898,148
Additions	–	50,881	50,881
Exchange adjustments	(4,925)	(26,923)	(31,848)
Net increase in fair value recognized in profit or loss	3,663	6,042	9,705
As at 30 June 2012	446,886	2,480,000	2,926,886

9. Investment properties (continued)

The Group's investment properties as at 30 June 2012 and 31 December 2011 were situated in the PRC and were held under medium-term lease.

Notes

- (a) The fair value of the Group's completed investment property as at 30 June 2012 and 31 December 2011 has been arrived at on the basis of a valuation carried out on that date by Dynasty Premium Asset Valuation & Real Estate Consultancy Limited, an independent qualified professional valuer not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.
- (b) The fair value of the investment properties under redevelopment acquired through an acquisition of the Acquired Group as at 7 July 2011, the acquisition completion date, had been arrived at on the basis of a valuation carried out on 30 June 2012 and 31 December 2011 by Norton Appraisals Limited, an independent qualified professional valuer not connected with the Group. As the property is under extension and renovation works, the residual method is adopted by making reference to recent comparable sales transactions as available in the relevant property market (i.e. direct comparison approach) and taking into account the construction costs that will be expended to complete the proposed extension and renovation works as to reflect the quality of the completed development.

10. Intangible asset

	30.6.2012 HK\$'000	31.12.2011 <i>HK\$'000</i>
At 1 January	45,491	46,961
Exchange adjustments	(481)	1,945
Amortisation for the period	(1,735)	(3,415)
At end of the period	43,275	45,491

11. Trade and other receivables

At 30 June 2012, included in trade and other receivables are trade receivables of approximately HK\$3,403,000 (31.12.2011: approximately HK\$6,508,000).

The credit period granted to the Group's trade receivables generally ranges from 30 days to 120 days. The following is an aged analysis of trade receivable net of allowance for doubtful debts presented based on the invoice date at the reporting date.

	30.6.2012 HK\$'000	31.12.2011 <i>HK\$'000</i>
Within 3 months	1,850	1,526
4 to 6 months	1,458	1,526
Over 6 months	95	3,456
Total	3,403	6,508

11. Trade and other receivables *(continued)*

Trade receivables that were past due but not impaired relate to independent customers that have a good track record with the Group. Based on past experience and the financial standings of these customers, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered full recoverable. The Group does not hold any collateral over these balances.

12. Other payables

	30.6.2012 HK\$'000	31.12.2011 HK\$'000
Other payables and accrued charges	78,900	76,728
Outstanding consideration for acquisition of an intangible asset through acquisition of a subsidiary	10,000	10,000
Refundable deposits received	99,789	100,048
Rental received in advance	6,692	6,712
	195,381	193,488

13. Borrowings

During the current period, the group obtained new bank loans and other borrowings of approximately HK\$12,210,000 and HK\$40,415,000 respectively (1.1.2011 to 30.6.2011: Nil) and repaid bank and other borrowings of approximately HK\$20,724,000 and HK\$14,042,000 respectively (1.1.2011 to 30.6.2011: repaid bank loans of approximately HK\$17,076,000).

The interest charged to the new bank loans was by reference to the benchmark bank loan interest rate quoted by the People's Bank of China floating upward by 10% and repayable by installments until 2019. The new other borrowings were interest bearing ranging from 3% per month to 15% per annum and repayable within 1 year. All the above new loans were denominated in RMB.

14. Amount due to related parties/a shareholder/a jointly controlled entity

The amounts are unsecured, interest free and repayable on demand.

15. Convertible notes and derivative financial instrument

On 7 July 2011, the Company issued zero-coupon convertible notes ("First Convertible Note") with a nominal value of approximately HK\$502,521,000 as part of the consideration for the acquisition of various companies ("Acquired Group") from Profit China Investments Development Limited ("Profit China"), a company which is beneficially wholly owned by a controlling shareholder and an executive director of the Company Mr. Liang Wenguan ("Mr. Liang"). The Acquired Group mainly holds the investment property under redevelopment in Chongqing and other assets and liabilities. The First Convertible Note are denominated in Hong Kong dollars. The First Convertible Note entitle the holders to convert them into ordinary shares of the Company at any time falling six months after the date of issue of the First Convertible Note and their settlement date on 6 July 2016, being the fifth anniversary of the date of its issue, in multiples of HK\$500,000 at a conversion price of HK\$0.128 per convertible share subject to adjustments in certain events. The shares to be issued and allotted upon conversions shall rank *pari passu* in all respects among themselves and with all other ordinary shares in issue by the Company on the date of such allotment and issue. If the First Convertible Note have not been converted, they will be redeemed on 6 July 2016 at par.

The Company may at any time after the date of issue of the First Convertible Note on giving to the holder thereof not less than 3 business day's notice in writing, elect to redeem the whole or part of the First Convertible Note.

The First Convertible Note were valued by the directors of the Company with reference to valuation reports issued by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group, on 7 July 2011, being the date of issuance of the convertible notes and the date of acquisition completion of the Acquired Group, and at the end of the reporting periods.

The principal amounts of the First Convertible Note are divided into straight debt component, embedded conversion option and early redemption option on initial recognition. The debt component is recognised in the consolidated statement of financial position as non-current liability (the holder of the convertible notes cannot require the Company to settle the convertible notes before the maturity of the convertible notes). The embedded conversion option is recognised in the consolidated statement of financial position as current liabilities. The early redemption option embedded in the First Convertible Note is recognised in the consolidated statement of financial position as current assets.

At initial recognition, the debt components are measured at fair value and subsequently measured at amortised cost. The effective interest rate of the debt component is 13.2% (31.12.2011:13.3%). Embedded conversion option and early redemption option are measured at fair value with changes in fair value recognized in profit or loss.

The movement of the debt component and derivatives components of the First Convertible Note for the year/period is set out as below:

15. Convertible notes and derivative financial instrument (continued)

	Debt component <i>HK\$'000</i>	Embedded conversion option <i>HK\$'000</i>	Early redemption option <i>HK\$'000</i>	Total <i>HK\$'000</i>
Debt component/embedded conversion option/early redemption option at the issuance date for the acquisition of net assets through an acquisition of the Acquired Group	263,914	353,245	(165,427)	451,732
Interest charge	16,998	–	–	16,998
(Gain)/loss arising on changes of fair value	–	(70,341)	107,767	37,426
As at 31 December 2011 and 1 January 2012	280,912	282,904	(57,660)	506,156
Interest charge (note 4)	14,370	–	–	14,370
Converted into ordinary shares (note 17)	(189,370)	(182,819)	37,261	(334,928)
Loss/(gain) arising on changes of fair value	–	43,962	(1,801)	42,161
As at 30 June 2012	105,912	144,047	(22,200)	227,759

The fair values of the derivative financial assets and liabilities are calculated using the binomial model. The inputs into the model were as follows:

	30 June 2012	31 December 2011
Share price	HK\$0.169	HK\$0.142
Conversion price	HK\$0.128	HK\$0.128
Expected volatility (note a)	86%	81%
Expected life (note b)	4.02 years	4.52 years
Risk free rate (note c)	0.295%	0.87%

Notes

- (a) Expected volatility was determined by calculating the historical volatility of the Company's share price.
- (b) Expected life was the expected remaining life of the First Convertible Note.
- (c) The risk free rate is determined by reference to the yield of the Hong Kong Exchange Fund Bills and Notes.

16. Provision for contingent consideration

In connection with the acquisition of net assets through an acquisition of the Acquired Group as detailed in note 15, provision for contingent consideration represented the acquisition-date fair value of contingent consideration for the Second Convertible Note and the Third Convertible Note, which will be issued by the Company after certain conditions fulfilled as specified in the acquisition agreement signed on 27 February 2011 for the Acquired Group and the supplemental agreement signed on 19 May 2011, as part of the consideration transferred in exchange for the Acquired Group.

The provision for contingent consideration is classified as a financial liability as it is resulted from a contract that will or may be settled in the Company's own equity instruments and is a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. The amount will then be measured at fair value with changes in fair value recognised in profit or loss.

The provision for contingent consideration was valued by the directors of the Company with reference to valuation reports issued by Avista Valuation Advisory Limited, an independent qualified valuer not connected to the Group, on 7 July 2011, being the date of acquisition completion of the Acquired Group, and at the end of the reporting periods.

	<i>HK\$'000</i>
Acquired on acquisition of net assets through an acquisition of the Acquired Group	219,825
Arising on changes in fair value	<u>(7,419)</u>
As at 31 December 2011 and 1 January 2012	212,406
Arising on changes in fair value	<u>43,823</u>
As at 30 June 2012	<u>256,229</u>

The fair values of the provision for contingent consideration are calculated using the binomial model. The inputs into the model were as follows:

SECOND CONVERTIBLE NOTE

	30 June 2012	31 December 2011
Share price	HK\$0.169	HK\$0.142
Conversion price	HK\$0.128	HK\$0.128
Expected volatility (<i>note a</i>)	86%	81%
Expected life (<i>note b</i>)	5.75 years	6.25 years
Risk free rate (<i>note c</i>)	0.49%	1.15%

16. Provision for contingent consideration (continued)**THIRD CONVERTIBLE NOTE**

	30 June 2012	31 December 2011
Share price	HK\$0.169	HK\$0.142
Conversion price	HK\$0.128	HK\$0.128
Expected volatility (note a)	86%	81%
Expected life (note b)	6 years	6.5 years
Risk free rate (note c)	0.53%	1.18%

Notes

- (a) Expected volatility was determined by calculating the historical volatility of the Company's share price.
- (b) Expected life was the expected remaining life of the Second Convertible Note and the Third Convertible Note.
- (c) The risk free rate is determined by reference to the yield of the Hong Kong Exchange Fund Bills and Notes.

The Second Convertible Note and the Third Convertible Note will be issued on 31 March 2013 and 6 July 2013 respectively based on the best estimation of the management of the Company on the current status of conditions for issuing those convertible notes.

17. Share capital

During the current period, total number of ordinary shares of 2,537,040,594, with nominal value of approximately of HK\$126,852,000, were issued upon the conversion of the First Convertible Note amounting to approximately HK\$334,928,000 (1.1.2011 to 30.6.2011: Nil)

18. Related party transactions

- (i) During the period ended 30 June 2012, Mr. Liang provided a personal guarantee to banks for the repayment of the bank loans of approximately HK\$523,733,000 (31.12.2011: approximately HK\$537,614,000).
- (ii) During the year ended 31 December 2011, the Company acquired net assets through an acquisition of the Acquired Group from Profit China at a consideration of approximately HK\$1,393,266,000.
- (iii) During the period ended 30 June 2012, the remuneration for key management personnel of the Group was approximately HK\$1,795,000 (1.1.2011 to 30.6.2011: approximately HK\$1,125,000).

19. Commitments

(a) Operating lease commitments

At 30 June 2012 and 31 December 2011, the Group's total future minimum lease payments under non-cancellable operating leases in respect of land and buildings were payable as follows:

	30.6.2012 HK\$'000	31.12.2011 <i>HK\$'000</i>
Within one year	41	77

(b) At the end of the reporting period, the Group had the following capital commitments:

	30.6.2012 HK\$'000	31.12.2011 <i>HK\$'000</i>
Contracted but not provided in the consolidated financial statements – Acquisition of investment properties under redevelopment	205,066	230,552

20. Contingent liabilities

- (a) During the period from 1 January 2004 to 31 December 2006, certain units and shops of the investment properties located in Chongqing had been sold to independent third parties (the "Buyers") under sale and purchase agreements (the SP Agreements). Leasing agency contracts and mortgage contracts were signed together with SP Agreements among the Buyers, Chongqing Kings Mall Real Estate Development Company Limited ("Kings Development", a wholly owned subsidiary of the Group acquired from Profit China) and Jia Jun Business Management Consultants Limited ("Jia Jun"). Pursuant to the terms of the leasing agency contracts, Jia Jun would pay the Buyers an annual rental income equivalent to ten percent of the purchase price of the properties over twenty years.

Based on the legal advice from the legal adviser of the Group, the directors of the Company considered that they have strong and valid ground of defence in relation to the potential claims in respect of the Buyers without entering into cancellation agreements regarding the units the Buyers had bought ("Problematic Properties") and the directors of the Company considered that Kings Development would not suffer material financial losses arising from such litigation and has the right to occupy and lease the Problematic Properties to other tenants to generate rental income.

20. Contingent liabilities *(continued)*

- (a) On 27 February 2011, pursuant to a deed of indemnity executed by Profit China and Mr. Liang in favour of the Group at the date of acquisition completion, Profit China and Mr. Liang will indemnify the Group against all costs that the Group may suffer in relation to the investment properties acquired on the acquisition of the Acquired Group and any disputes and litigation (whether commencing before or after the acquisition completion) against the Group arising or accruing in relation to the operation of the Acquired Group on or before the date of acquisition completion (the "Indemnified Liabilities").

In addition, on 19 May 2011, Zhu Hai Port Plaza Development Company Limited entered into an undertaking to bear the aforesaid Indemnified Liabilities to the extent that such losses, liabilities and expenses have not been settled by Mr. Liang pursuant to his obligations under the indemnity agreement executed by him in favour of the Acquired Group that the Acquired Group may suffer.

- (b) During the year ended 31 December 2010, the Group received a legal letter from an independent third party in respect of a dispute arising from a past exclusive distributorship agreement. Alleged losses of RMB12,000,000 were claimed to have been suffered by the independent third party.

The directors of the Company considered that the Group had a valid and strong ground for defence as the independent third party has no right to enter into any exclusive distributorship agreement. As a result, the possibility of the Group to lose the case is remote and the Group is not expected to suffer material financial losses arising from such litigation, if any. Accordingly, no provision for any claim amount and other costs were made as at 30 June 2012 in the consolidated financial statements.

21. Pledge of assets

As at 30 June 2012, bank balances of approximately HK\$4,108,000 (31.12.2011: approximately HK\$4,031,000), leasehold land and buildings and investment properties with carrying value of approximately HK\$29,484,000 (31.12.2011: approximately HK\$30,290,000) and approximately HK\$2,926,886,000 (31.12.2011: approximately HK\$2,790,148,000) respectively, were pledged to secure general banking facilities granted to the Group or borrowings of the Group.

In addition, the Group has pledged its entire equity interest in its wholly-owned subsidiary, New China IQ Limited, Dynamic Progress Development Limited and Harbin Dynamic Global Property Company Limited, to secure banking facilities granted to the Group.

BUSINESS REVIEW AND PROSPECTS

During the period under review, the Company's principal activity continued to be investment holding, whilst its subsidiaries were mainly engaged in property investment and development in the PRC.

For the six months ended 30 June 2012, the Group recorded a turnover of HK\$13,364,000, representing a decrease of 8% from HK\$14,517,000 for the corresponding period last year.

The Group's unaudited consolidated loss for the period under review amounted to HK\$105,234,000 and the corresponding period of last year recorded an unaudited consolidated profit of HK\$29,399,000. The loss of the current period was mainly attributable to the change in fair value of convertible notes and their corresponding derivative financial instruments and the provision for contingent consideration and the decrease in fair value gain on investment properties.

As before, the Group's commercial building in Harbin has been providing long-term steady rental income for the Group. The hotel management right in relation to Xiang Quan Hotel has also been generating royalty fee income for the Group on an on-going basis.

However, the Group's joint venture, formed about two year ago, has not commenced provision of property management service as expected. There was a share of profit of jointly controlled entity in the amount of HK\$1,754,000 (six months ended 30 June 2011: HK\$1,753,000) for the Group during the period.

The Group's flagship mall in Chongqing, Sichuan Province, a hub of the vast western region of the PRC has become our biggest investment project. It is expected that the mall will be open for business soon, and this will bring in long term rental income and asset appreciation potential in future.

ASSETS AND LIABILITIES

As at 30 June 2012, the Group had total liabilities of about HK\$1,767,951,000, of which approximately HK\$62,485,000 and HK\$36,142,000 were bank loans and other borrowings repayable within the next 12 months respectively.

LIQUIDITY, FINANCIAL RESOURCES, CHARGE ON ASSETS, GEARING, CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

As at 30 June 2012, the Group's current assets and current liabilities were HK\$45,396,000 and HK\$539,201,000 respectively.

As at 30 June 2012, main charges on assets of the Group were leasehold land and buildings, investment properties and bank balances of approximately HK\$29,484,000, HK\$2,926,886,000 and HK\$4,108,000 respectively. Moreover, the equity interests of several subsidiaries were also pledged.

The Group's assets/liabilities ratio is calculated on its total liabilities divided by total assets. As at 30 June 2012, the ratio was 57.1%.

Details of the contingent liabilities are provided in note 20.

As at 30 June 2012, the Group had capital commitments of approximately HK\$205,066,000.

The Board believes that the Group's cash holding, liquid asset value and future revenue will be sufficient to fund its capital expenditure and meet its working capital requirements.

EXCHANGE RISK

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi or HK dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

HUMAN RESOURCES

The Group has a total of approximately 250 employees, who were remunerated according to nature of the job and market trend, as well as individual qualifications and performance. The Group has participated in the Mandatory Provident Fund Scheme. On the job training was provided to staff from time to time.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the interests of directors and chief executives in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which (i) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by our Company pursuant to Section 352 of the SFO, or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, were as follows:

(a) Interest in Shares:

Name of Director	Type of interests	Number of shares held	Percentage of interest
Mr. Liang Wenguan ("Mr. Liang")	Personal	5,397,209,292 (L)	49.77%
	Interest of controlled corporation (Note 1)	1,094,549,171 (L) 6,491,758,463 (L)	10.00% 59.77%

(L) denotes long position

Note 1: The Shares were held by Madex International Company Limited, a company which is 100% owned by Mr. Liang.

(b) Interest in underlying shares:

Name of Director	Nature of interests	Description of securities	Number of underlying shares	Approximate % of interests
Mr. Liang	Beneficial	Convertible notes (Note 2)	2,277,935,625 (L)	21.01%

(L) denotes long position

Note 2: Pursuant to a very substantial acquisition and connected transaction as detailed in a circular of the Company dated 25 May 2011, the Company will, subject to the fulfillment of certain conditions, allot a maximum of 5,721,961,219 convertible shares (under convertible notes in the principal amount of HK\$732,411,036.12) to Profit China Investment Development Limited ("Profit China"), which is 100% held by Ms. Tam Ping Foon Calana in trust for Mr. Liang. As at 30 June 2012, the outstanding principal amount of convertible notes held by Profit China was HK\$291,575,760 (representing 2,277,935,625 convertible shares).

SHARE OPTION SCHEME

During the Period, no share options have been granted nor outstanding pursuant to the share option scheme adopted at the annual general meeting of the Company held on 23 June 2011.

CORPORATE GOVERNANCE

The Directors consider that the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2012 except for certain deviations as follows:

Chairman and Chief Executive Officer

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same person. The Company did not have a chairman until 27 June 2012 when Mr. Liang Wenguan was appointed as the Chairman. Mr. Zhong Guoxing acted as an Executive Director and the Chief Executive Officer until he resigned from both positions on 27 June 2012. During the six months ended 30 June 2012 decisions were made collectively by the Executive Directors. The Board believes that this arrangement still enables the Company to make and implement decisions promptly, and thus the Company's objectives can be achieved efficiently and effectively in response to the changing environment.

Appointments, Re-election and Removal of Directors

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Independent Non-executive Directors ("INEDs") of the Company had no fixed term of office during the period, but all of them are subject to the relevant provisions of the bye-laws ("Bye-laws") of the Company and any other applicable laws whereby they shall vacate or retire from their office. According to the Bye-laws, at each annual general meeting of the Company, one third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office.

CHANGES OF DIRECTOR'S INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to rule 13.51B(1) of the Listing Rules, the change of directors' information of the Company since the date of the 2011 Annual Report are as follows:

The Company and Mr. Zhang Guodong ("Mr. Zhang") entered into a new service agreement in relation to the renewal of Mr. Zhang's appointment as an Executive Director of the Company for a term of three years commencing from 1 March 2012. Mr. Zhang is entitled to a salary of HK\$900,000 per annum and a year end bonus in a sum up to one month's salary.

Save for the information disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for the Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the period and they all confirmed that they have fully complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee comprises all Independent Non-executive Directors and is responsible for review of the Group's financial information and oversight of the Group's financial reporting system and internal control procedures. The Committee is also responsible for reviewing the interim and final results of the Group prior to recommending them to the Board for approval. In performing its duties, it has unrestricted access to personnel, records and external auditors and senior management.

The unaudited interim results for the period ended 30 June 2012 have been reviewed by the Audit Committee before recommendation to the Board for approval.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

By Order of the Board
Liang Wenguan

Chairman & Executive Director

Hong Kong, 28 August 2012