

Interim Report 2014



Madex International (Holdings) Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00231)

This report, in both English and Chinese versions, is available on the Company's website at <http://www.madex.com.hk> (the "Company Website").

Shareholders who have chosen or have been deemed consented to receive the corporate communications of the Company (the "Corporate Communications") via the Company Website and who for any reason have difficulty in receiving or gaining access to this report posted on the Company Website will promptly upon request be sent this report in printed form free of charge.

Shareholders may at any time change their choice of the means of receipt (either in printed form or via the Company Website) and/or language(s) (either English only or Chinese only or both languages) of Corporate Communications.

Shareholders may send their request to receive this report in printed form, and/or to change their choice of the means of receipt and/or language(s) of Corporate Communications by notice in writing to the Company's Hong Kong Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong or by sending an email to the Hong Kong Share Registrar of the Company at isecom@hk.tricorglobal.com.

CORPORATE INFORMATION

Board of Directors

Executive Directors:
Mr. Zhang Guodong
Ms. Liang Huixin

Independent Non-executive Directors:

Dr. Dong Ansheng
Mr. Hung Hing Man
Mr. Hong Sze Lung

Audit Committee

Mr. Hung Hing Man
(Committee Chairman)
Dr. Dong Ansheng
Mr. Hong Sze Lung

Remuneration Committee

Dr. Dong Ansheng
(Committee Chairman)
Ms. Liang Huixin
Mr. Hung Hing Man
Mr. Hong Sze Lung

Nomination Committee

Dr. Dong Ansheng
(Committee Chairman)
Ms. Liang Huixin
Mr. Hung Hing Man
Mr. Hong Sze Lung

Authorised Representatives

Mr. Zhang Guodong
Mr. Chan Kwan Pak

Company Secretary

Mr. Chan Kwan Pak

Auditors

Pan-China (HK) CPA Limited
11/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

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Hong Kong Branch Registrar and Transfer Office

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

Head Office and Principal Place of Business

Suite 3005, 30/F, West Tower
Shun Tak Centre
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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 2014, together with the comparative figures for the corresponding period in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Six months ended	
		30.6.2014 (Unaudited) HK\$'000	30.6.2013 (Unaudited) HK\$'000
Revenue	3	19,444	14,170
Cost of sales		(4,164)	(3,295)
Gross profit		15,280	10,875
Other revenue		1,588	37
Loss on disposal of subsidiaries	17	(33,370)	–
Administrative expenses		(51,821)	(30,474)
Finance costs	4	(24,091)	(20,898)
Fair value change on investment properties	9	(142,449)	(173,433)
Fair value change on derivative financial assets	15	(3,576)	(3,020)
Fair value change on derivative financial liabilities	15	8,007	2,112
Fair value change on contingent consideration	16	8,433	(14,637)
Share of profits of a joint venture		–	1,443
Loss before tax		(221,999)	(227,995)
Income tax expenses	5	35,612	43,358
Loss for the period	6	(186,387)	(184,637)
Loss for the period attributable to owners of the Company		(186,387)	(184,637)
Loss per share	8		
Basic and diluted		(1.574) cents	(1.572) cents

CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Six months ended	
	30.6.2014 (Unaudited) HK\$'000	30.6.2013 (Unaudited) HK\$'000
Loss for the period	(186,387)	(184,637)
Other comprehensive (expense)/income Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translating foreign operations	(43,482)	28,397
Reclassification adjustments for the cumulative exchange differences upon disposal of foreign operations (<i>note 17</i>)	(31,968)	–
Other comprehensive (expense)/income for the period	(75,450)	28,397
Total comprehensive expense for the period	(261,837)	(156,240)
Total comprehensive expense attributable to owners of the Company	(261,837)	(156,240)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.6.2014 (Unaudited) HK\$'000	31.12.2013 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		32,182	32,736
Investment properties	9	2,319,202	2,974,424
Intangible asset	10	37,124	39,842
Interest in a joint venture		47,097	47,097
		2,435,605	3,094,099
Currents assets			
Trade and other receivables	11	83,174	73,108
Pledged bank balances		136	140
Derivative financial assets	15	2,263	5,839
Bank balances and cash		26,057	41,283
		111,630	120,370
Current liabilities			
Other payables	12	240,323	382,505
Borrowings	13	140,662	123,046
Tax liabilities		210	210
Amount due to a related party	14	1,564	2,564
Amount due to a shareholder	14	1,528	18,548
Amount due to a joint venture	14	49,503	49,503
Derivative financial liabilities	15	10,032	18,039
		443,822	594,415
Net current liabilities		(332,192)	(474,045)
Total assets less current liabilities		2,103,413	2,620,054

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

	<i>Note</i>	30.6.2014 (Unaudited) HK\$'000	31.12.2013 (Audited) HK\$'000
Capital and reserves			
Share capital		592,132	592,132
Reserves		495,957	757,794
Total equity		1,088,089	1,349,926
Non-current liabilities			
Borrowings	13	573,911	709,868
Deferred tax liabilities		266,321	379,204
Convertible notes	15	38,961	36,492
Provision for contingent consideration	16	136,131	144,564
		1,015,324	1,270,128
		2,103,413	2,620,054

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total equity HK\$'000
At 1 January 2013	542,218	841,680	52	80,762	12,182	1,476,894
Loss for the year	-	-	-	-	(304,086)	(304,086)
Exchange differences arising on translating foreign operations	-	-	-	47,083	-	47,083
Total comprehensive (expense)/income for the year	-	-	-	47,083	(304,086)	(257,003)
Converted convertible note into shares	49,914	80,121	-	-	-	130,035
At 31 December 2013 and 1 January 2014	592,132	921,801	52	127,845	(291,904)	1,349,926
Loss for the period	-	-	-	-	(186,387)	(186,387)
Exchange differences arising on translating foreign operations	-	-	-	(43,482)	-	(43,482)
Reclassification adjustments for the cumulative exchange differences upon disposal of foreign operations (note 17)	-	-	-	(31,968)	-	(31,968)
Total comprehensive expense for the period	-	-	-	(75,450)	(186,387)	(261,837)
At 30 June 2014	592,132	921,801	52	52,395	(478,291)	1,088,089

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*(continued)**FOR THE SIX MONTHS ENDED 30 JUNE 2014*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2013	542,218	841,680	52	80,762	12,182	1,476,894
Loss for the period				-	(184,637)	(184,637)
Exchange differences arising on translating foreign operations	-	-	-	28,397	-	28,397
Total comprehensive (expense)/income for the period	-	-	-	28,397	(184,637)	(156,240)
Converted convertible note into shares	49,914	80,121	-	-	-	130,035
At 30 June 2013	592,132	921,801	52	109,159	(172,455)	1,450,689

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30.6.2014 (Unaudited) HK\$'000	30.6.2013 (Unaudited) HK\$'000
Net cash (used in)/generated from operating activities	(76,907)	21,452
Net cash generated from/(used in) investing activities	86,533	(114,918)
Net cash (used in)/generated from financing activities	(22,730)	184,641
Net (decrease)/increase in cash and cash equivalents	(13,104)	91,175
Cash and cash equivalents at beginning of the period	41,283	6,909
Effect of foreign exchange rate changes	(2,122)	(93)
Cash and cash equivalents at end of the period	26,057	97,991

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2014

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 values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK (IFRIC) – INT 21	Levies

The application of the above new Interpretations and amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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

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	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Revenue	14,649	9,817	4,795	4,353	-	-	19,444	14,170
Segment loss	(153,868)	(183,865)	(1,639)	(909)	-	(164)	(155,507)	(184,938)
Unallocated corporate expenses							(10,484)	(23,639)
Unallocated other revenue							1,453	37
Loss on disposal of subsidiaries (note 17)							(33,370)	-
Share of profits of a joint venture							-	1,443
Finance costs (note 4)							(24,091)	(20,898)
Loss before tax							(221,999)	(227,995)

4. Finance costs

	Six months ended	
	30.6.2014 HK\$'000	30.6.2013 <i>HK\$'000</i>
Interest on:		
– bank borrowings and other interest bearing borrowings wholly repayable within five years	16,442	14,704
– bank borrowings and other interest bearing borrowings wholly repayable over five years	5,180	3,497
– effective interest expenses on convertible notes (<i>note 15</i>)	2,469	2,697
Borrowing costs incurred in connection with bank borrowings for investment properties under redevelopment	–	13,466
Total borrowing costs	24,091	34,364
Less: amounts capitalised	–	(13,466)
	24,091	20,898

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 (1.1.2013 to 30.6.2013: 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	
	30.6.2014 HK\$'000	30.6.2013 <i>HK\$'000</i>
Current tax		
PRC Enterprise Income Tax	–	–
Deferred tax		
Fair value changes on investment properties	(35,612)	(43,358)
	(35,612)	(43,358)

6. Loss for the period

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

	Six months ended	
	30.6.2014 HK\$'000	30.6.2013 <i>HK\$'000</i>
Amortisation of an intangible asset (included in cost of sales)	1,753	1,778
Depreciation for property, plant and equipment	793	717
Total depreciation and amortisation	2,546	2,495
Interest income	(1,453)	(37)

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 2014 (1.1.2013 to 30.6.2013: Nil).

8. Loss per share**(a) Basic loss per share**

The calculation of the basic loss per share are based on the following data:

	Six months ended	
	30.6.2014 HK\$'000	30.6.2013 <i>HK\$'000</i>
Loss for the period attributable to owners of the Company	(186,387)	(184,637)
	30.6.2014 '000	30.6.2013 <i>'000</i>
Weighted average number of ordinary shares		
Number of shares		
Issued ordinary shares at 1 January	11,842,647	10,844,367
Effect of shares issued upon conversion of convertible notes	-	904,519
Weighted average number of ordinary shares at 30 June	11,842,647	11,748,886

8. Loss per share (continued)**(b) Diluted loss per share**

The calculation of the diluted loss per share are based on the following data:

	Six months ended	
	30.6.2014 HK\$'000	30.6.2013 <i>HK\$'000</i>
Loss for the period attributable to owners of the Company	(186,387)	(184,637)
After tax effect of effective interest on the liability component of convertible notes	2,062	2,022
Loss for the period attributable to owners of the Company (diluted)	(184,325)	(182,615)
	30.6.2014 '000	30.6.2013 <i>'000</i>
Weighted average number of ordinary shares (diluted)		
Numbers of shares		
Weighted average number of ordinary shares at 30 June	11,842,647	11,748,886
Effect of the dilutive potential ordinary shares	390,625	390,625
Weighted average number of ordinary shares used in the calculation of diluted loss per share	12,233,272	12,139,511

The diluted loss per share for the periods ended 30 June 2014 and 30 June 2013 is equivalent to the basic loss per share as the potential shares arising from the conversion of the convertible bonds would decrease the loss per share of the Group for the periods, and is regarded as anti-dilutive.

9. Investment properties

	Completed investment properties in the PRC <i>(note (a))</i> <i>HK\$'000</i>	Investment properties under redevelopment in the PRC <i>(note (b))</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
Fair value			
As at 1 January 2013	448,756	2,650,000	3,098,756
Additions	7,033	192,933	199,966
Exchange adjustments	10,903	71,879	82,782
Reclassification of investment properties under redevelopment to completed investment properties	2,914,812	(2,914,812)	–
Decrease in fair value recognized in profit or loss	(407,080)	–	(407,080)
As at 31 December 2013 and 1 January 2014	2,974,424	–	2,974,424
Exchange adjustments	(75,905)	–	(75,905)
Disposal of subsidiaries <i>(note 17)</i>	(436,868)	–	(436,868)
Decrease in fair value recognized in profit or loss	(142,449)	–	(142,449)
As at 30 June 2014	<u>2,319,202</u>	<u>–</u>	<u>2,319,202</u>

The Group's investment properties as at 30 June 2014 and 31 December 2013 were situated in the PRC and were held under medium-term lease. There were 2 investment properties held by the Group, which were located at Harbin ("the Harbin property") and Chongqing ("the Chongqing property"). The Harbin property was classified as completed investment property as at 31 December 2013 and was disposed of upon the disposal of subsidiaries during the 6 months ended 30 June 2014. The Chongqing property was classified as investment properties under redevelopment in the PRC as at 31 December 2012 and reclassified as completed investment properties in the PRC during the year ended 31 December 2013 as the Chongqing property was officially opened on 1 October 2013.

9. Investment properties (continued)*Notes:*

- (a) The fair value of the Harbin property as at 31 December 2013 has been arrived at on the basis of a valuation carried out on that date by Asset Appraisal 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 Chongqing property as at 30 June 2014 and 31 December 2013 had been arrived at on the basis of a valuation carried out by Assets Appraisals Limited, an independent qualified professional valuer not connected with the Group. The Chongqing property is valued by the discounted cash flow method and where appropriate, the comparison method. Discounted cash flow approach is based on the present worth of future economic benefits expected to be derived from the properties. The value of the Chongqing property is developed by discounting future debt free cash flows available for distribution to the owners of the property to their present worth at market derived rates of return appropriate for the risks and hazards of holding similar assets. Comparison method is based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, 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 capital values.

10. Intangible asset

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
At 1 January	39,842	42,305
Exchange adjustments	(965)	1,162
Amortisation for the period	(1,753)	(3,625)
At end of the period	37,124	39,842

11. Trade and other receivables

At 30 June 2014, included in trade and other receivables are trade receivables of approximately HK\$4,295,000 (31.12.2013: approximately HK\$9,200,000).

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.

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
Within 3 months	2,338	2,398
4 to 6 months	1,957	2,398
Over 6 months	–	4,404
Total	4,295	9,200

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

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
Construction cost payables, other payables and accrued charges	105,904	120,597
Outstanding consideration for acquisition of an intangible asset through acquisition of a subsidiary	10,000	10,000
Refundable deposits received	101,028	108,173
Rental received in advance	23,391	42,735
Deposit received for disposal of subsidiaries	–	101,000
	240,323	382,505

13. Borrowings

During the current period, the group obtained new other borrowings of approximately HK\$49,875,000 (1.1.2013 to 30.6.2013: new bank loans and other borrowings of approximately HK\$328,698,000 and HK\$100,253,000 respectively) and issued debentures to independent third parties of HK\$40,000,000 and repaid bank and other borrowings of approximately HK\$40,639,000 and HK\$32,668,000 respectively (1.1.2013 to 30.6.2013: approximately HK\$33,730,000 and HK\$155,879,000 respectively).

The new other borrowings were denominated in RMB and interest bearing at 15% per annum and repayable within 1 year. The debentures issued during the period were denominated in HK\$ and interest bearing at 6% per annum and wholly repayable by 84 months after the date of issue.

14. Amount due to a related party/a shareholder/a joint venture

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 of the Company Mr. Liang Wenguan ("Mr. Liang"). The Acquired Group mainly holds the investment properties under redevelopment in Chongqing and other assets and liabilities. The First Convertible Note is 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 was valued by the directors of the Company with reference to valuation report issued by Asset Appraisal Limited, an independent qualified valuer not connected to the Group.

15. Convertible notes and derivative financial instrument (continued)

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 holders of the First Convertible Note 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 13.3% (31.12.2013: 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:

	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>
As at 1 January 2013	113,543	97,528	(30,852)	180,219
Interest charge	5,060	–	–	5,060
Converted into ordinary shares (Gain)/loss arising on changes of fair value	(82,111)	(70,099)	22,175	(130,035)
	<u>–</u>	<u>(9,390)</u>	<u>2,838</u>	<u>(6,552)</u>
As at 31 December 2013 and 1 January 2014	36,492	18,039	(5,839)	48,692
Interest charge (note 4)	2,469	–	–	2,469
(Gain)/loss arising on changes of fair value	–	(8,007)	3,576	(4,431)
	<u>–</u>	<u>(8,007)</u>	<u>3,576</u>	<u>(4,431)</u>
As at 30 June 2014	<u>38,961</u>	<u>10,032</u>	<u>(2,263)</u>	<u>46,730</u>

15. Convertible notes and derivative financial instrument (continued)

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 2014	31 December 2013
Share price	HK\$0.115	HK\$0.128
Conversion price	HK\$0.128	HK\$0.128
Expected volatility (note a)	31.66%	48.32%
Expected life (note b)	2.02 years	2.52 years
Risk free rate (note c)	0.375%	0.503%

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.

During the year ended 31 December 2013, the Third Convertible Note was cancelled as Profit China and Mr. Liang cannot comply with the Undertaking before the expiration date. The amount of approximately HK\$49,655,000 was derecognised from the amount of contingent consideration and such amount was recognised in that year under the item of "Derecognition of contingent consideration" in the consolidated statement of profit or loss.

16. Provision for contingent consideration (continued)

The provision for contingent consideration was valued by the directors of the Company with reference to valuation report issued by Asset Appraisal Limited, an independent qualified valuer not connected to the Group.

	<i>HK\$'000</i>
As at 1 January 2013	213,952
Derecognition of contingent consideration	(49,655)
Arising on changes in fair value	(19,733)
As at 31 December 2013 and 1 January 2014	144,564
Arising on changes in fair value	(8,433)
As at 30 June 2014	136,131

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 2014	31 December 2013
Share price	HK\$0.115	HK\$0.128
Conversion price	HK\$0.128	HK\$0.128
Expected volatility (note a)	55.92%	62.37%
Expected life (note b)	5.5 years	6 years
Risk free rate (note c)	1.445%	1.646%

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.
- (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 will be issued on 31 December 2014 based on the best estimation of the management of the Company on the current status of conditions for issuing those convertible notes.

17. Disposal of subsidiaries

The Group entered into a conditional sale and purchase agreement with an independent third party on 17 September 2013 to dispose of the Group's equity interest in Dynamic Progress Development Limited and its subsidiaries for consideration of RMB150,000,000 (subject to adjustment of any changes in the external debts). The transaction was completed on 28 February 2014 and the consideration was adjusted to RMB146,800,000.

Consideration received	<i>HK\$ '000</i>
Consideration received in cash and cash equivalents during the year ended 31 December 2013	101,000
Consideration received in cash and cash equivalents during the 6 months ended 30 June 2014	85,665
Total consideration received	<u>186,665</u>
Analysis of assets and liabilities over which control was lost	<i>HK\$ '000</i>
<i>Non-current assets</i>	
Property, plant and equipment	111
Investment properties	436,868
<i>Current assets</i>	
Other receivables	1,568
Bank balances and cash	167
<i>Current liabilities</i>	
Other payables	(5,564)
Refundable deposits received	(3,157)
Rental received in advance	(9,496)
Borrowings	(12,626)
<i>Non-current liabilities</i>	
Borrowings	(103,535)
Deferred tax liabilities	(65,463)
Net assets disposed	<u>238,873</u>

17. Disposal of subsidiaries *(continued)*

Loss on disposal of subsidiaries	<i>HK\$ '000</i>
Consideration received	186,665
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of subsidiaries	31,968
Net assets disposed of	(238,873)
PRC tax provision in respect of the disposal of subsidiaries	(13,130)
Loss on disposal of subsidiaries	<u>(33,370)</u>
Net cash inflow on disposal of subsidiaries	<i>HK\$ '000</i>
Consideration received in cash and cash equivalents during the 6 months ended 30 June 2014	85,665
Less: bank balances and cash disposed of	(167)
Net cash inflow on disposal of subsidiaries	<u>85,498</u>

18. Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

18. Fair value measurements of financial instruments (continued)**30 June 2014**

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
Derivative financial assets	–	–	2,263	2,263
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	–	–	10,032	10,032
Provision for contingent consideration	–	–	136,131	136,131
	–	–	146,163	146,163

31 December 2013

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
Derivative financial assets	–	–	5,839	5,839
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	–	–	18,039	18,039
Provision for contingent consideration	–	–	144,564	144,564
	–	–	162,603	162,603

During the six months ended 30 June 2014 and the year ended 31 December 2013, there were no transfers between all levels.

19. Related party transactions

- (i) As at 30 June 2014, Mr. Liang provided a personal guarantee to banks for the repayment of the bank loans of approximately HK\$527,057,000 (31.12.2013: approximately HK\$690,423,000).
- (ii) During the period ended 30 June 2014, the remuneration for key management personnel of the Group was approximately HK\$1,704,000 (1.1.2013 to 30.6.2013: approximately HK\$1,845,000).
- (iii) As at 30 June 2014, Zhu Hai Port Plaza Development Company Limited ("Zhu Hai Port Plaza"), a company indirectly and beneficially owned by Mr. Liang, provided a corporate guarantee to a bank for the repayment of the bank loan of approximately HK\$115,960,000 (31.12.2013: approximately HK\$122,762,000).
- (iv) Pursuant to a tenancy agreement entered by New China IQ Limited ("New China"), a wholly owned subsidiary of the Group, and Mai Shunxing (the mother of Liang Huixin, a director of the Company) on 11 March 2014, New China agreed to rent a property owned by Mai Shunxing at a monthly rent of HK\$50,000 for the period from 1 January 2014 to 31 December 2015. During the 6 months ended 30 June 2014, total rent of HK\$300,000 were paid to Mai Shunxing (1.1.2013 to 30.6.2013: Nil).

20. Commitments

Operating lease commitments

At 30 June 2014 and 31 December 2013, the Group's total future minimum lease payments under non-cancellable operating leases in respect of land and buildings were payable as follows:

	30.6.2014 HK\$'000	31.12.2013 HK\$'000
Within one year	-	52

21. Contingent liabilities

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.

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 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.

22. Pledge of assets

As at 30 June 2014, bank balances of approximately HK\$136,000 (31.12.2013: approximately HK\$140,000), leasehold land and buildings and investment properties with carrying value of approximately HK\$28,786,000 (31.12.2013: approximately HK\$29,231,000) and approximately HK\$2,319,202,000 (31.12.2013: approximately HK\$2,974,424,000) 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 New China to secure banking facilities granted to the Group for the 6 months ended 30 June 2014 and the year ended 31 December 2013.

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 mainland China.

For the six months ended 30 June 2014, the Group recorded a turnover of HK\$19,444,000, representing an increase of 37% from HK\$14,170,000 for the corresponding period last year.

The Group's unaudited consolidated loss for the period under review amounted to HK\$186,387,000, on a par with the loss of HK\$184,637,000 for the six months ended 30 June 2013.

Following the completion of disposal of Harbin Mall in February 2014, the Group has fallen short of a stream of rental income from Harbin Mall. However, Shenghui Plaza, the Group's flagship arcade in Chongqing, has started to record rental income. As such, during the period the overall rental income amounted to HK\$14,649,000 (six months ended 30 June 2013: HK\$9,817,000), representing an increase of approximately 49%. As before, a steady royalty fee income was recorded during the period under review from the hotel management right in relation to Xiang Quan Hotel, which amounted to HK\$4,795,000 (six months ended 30 June 2013: HK\$4,353,000).

The Group is in the process of reengineering the tenant mix of Shenghui Plaza in a bid to raise the quality of the arcade and its value in the long run. Hence, it is expected that the rental income will unavoidably be affected in the short term, but the rental income will increase after the completion of the reengineering exercise.

The Group is targeting potential investment projects to replenish its investment portfolio for the future growth.

ASSETS AND LIABILITIES

As at 30 June 2014, the Group had total liabilities of about HK\$1,459,146,000, of which approximately HK\$113,106,000 and HK\$27,556,000 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 2014, the Group's current assets and current liabilities were HK\$111,630,000 and HK\$443,822,000 respectively.

As at 30 June 2014, main charges on assets of the Group were leasehold land and buildings, investment properties and bank balances of approximately HK\$28,786,000, HK\$2,319,202,000 and HK\$136,000 respectively. Moreover, the equity interests of a subsidiary was also pledged.

The Group's assets/liabilities ratio is calculated on its total liabilities divided by total assets. As at 30 June 2014, the ratio was 57.3%.

Details of the contingent liabilities are provided in note 21.

As at 30 June 2014, the Group had no capital commitments.

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' INTERESTS

As at 30 June 2014, none of the Directors and the Chief Executive of the Company had any interests or short positions in the shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO")) which are (a) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (c) required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. During the six months ended 30 June 2014, none of the Directors, Chief Executive or their spouses or children under the age of 18 was given the right to acquire any shares in or debentures of the Company or any of its associated corporations (within the meaning of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At as 30 June 2014, the following parties were recorded in the register kept by the Company under section 336 of the SFO as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

(a) Interest in Shares:

Name of substantial shareholder	Personal Interests	Corporate Interest	Total	Percentage of interest
Mr. Liang Wenguan ("Mr. Liang")	5,606,969,292 (L)	1,020,549,171 (L) (Note 1)	6,627,518,463 (L)	55.96%
Mr. Huo Zhiwei	998,280,000 (L)	-	998,280,000 (L)	8.43%

(L) denotes long position

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS *(continued)***(b) Interest in underlying shares:**

Name of substantial shareholder	Nature of interests	Description of securities	Number of underlying shares	Approximate % of interests
Mr. Liang	Interests in a controlled corporation	Convertible Note	1,174,609,375 (L) (Note 2)	9.92%

(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, grant three convertible notes ("Convertible Notes") to Profit China Investment Development Limited ("Profit China"), which is 100% held by Ms. Tam Ping Foon Calana in trust for Mr. Liang. The First Convertible Note was subsequently granted. On 12 March 2014, the Company, Profit China and Mr. Liang mutually agreed to fully discharge and release all or any rights, obligations and responsibilities under the S&P Agreement relating to issue the Third Convertible Note. As at 30 June 2014, the outstanding principal amount of the Second Convertible Note that may, upon fulfilment of certain conditions, be granted to Profit China was HK\$150,350,000 (representing 1,174,609,375 conversion 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 2014 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. During the Period, the Company had no chief executive officer. Since the resignation of Mr. Liang Wenguan on 15 May 2014, the Company has not appointed a chairman. During the six months ended 30 June 2014 decisions were made collectively by the Executive Directors. The Board believes that this arrangement enables the Company to make and implement decisions promptly, and thus achieve the Company's objectives 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 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.

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 2014 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 2014.

By Order of the Board
Zhang Guodong
Executive Director

Hong Kong, 28 August 2014