

# SIX MONTH REPORT AND FINANCIAL STATEMENTS

For the six months ended June 30, 2007



**MASS FINANCIAL CORP**

**Mass Financial Corp.**  
(Company's registered name)

**Suite 803, 8th Floor, Dina House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong SAR, China**  
(Address of principal executive office)

**Barbados**  
(Jurisdiction of incorporation or organization)

The following is a discussion and analysis of our financial condition and results of operations for the six months ended June 30, 2007. The unaudited consolidated financial statements are prepared in accordance with the International Financial Reporting Standards, which include International Accounting Standards and Interpretations adopted by the International Accounting Standards Board. The dollar amounts are stated in United States dollars (except otherwise indicated), as rounded to the nearest thousand (except per share amounts).

There were **17,044,229** class A common shares without par value issued & outstanding as of June 30, 2007.

## ***Disclaimer for Forward-Looking Information***

Certain statements in this annual report are forward-looking statements, which reflect our management's expectations regarding our future growth, results of operations, performance and business prospects and opportunities. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits we will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of June 30, 2007. These assumptions, which include, management's current expectations, estimates and assumptions about certain projects and the markets we operate in, the global economic environment, interest rates, exchange rates and our ability to attract and retain customers and to manage its assets and operating costs, may prove to be incorrect.

Important factors and risk that might cause our actual results to differ materially from the results contemplated by these forward looking statements including those that are contained in the section titled "Risk Factors", included in this annual report. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



## PRESIDENT'S MESSAGE TO SHAREHOLDERS

Dear Fellow Shareholders:

2007 is our first full year as Mass Financial Corp ("Mass"), an independent company focusing on financial services. During this year we have started towards our goal of pursuing international opportunities to enhance our assets and create additional value for our shareholders. We continued to expand our merchant banking and structured trade finance, focused our commodities business, optimized our proprietary investment positions and expanded our operations in China.

I would like to summarize our operating results for the first six months of 2007. All amounts referred to in this letter are in US dollars and earnings per share amounts are on a diluted basis.

For the six-month period ended June 30, 2007, our revenues were \$265.9 million, with net income of \$34.0 million, or \$1.46 per share. We ended the period with \$124.6 million in cash and cash equivalents, \$166.7 million in working capital, equity for our common shares of \$70.4 million and subordinated non-convertible preferred shares of \$85.4 million.

The number of shares issued and outstanding for the year ended June 30, 2007 was 17,044,229, and the weighted average number of shares was 23,309,893 on a diluted basis.



Our financial services focus on merchant banking. Mass provides specialized merchant banking and corporate finance services and advice internationally, including consultancy on corporate strategy and structure, mergers and acquisitions. Mass's merchant banking activities include a trading group focused on trading commodities and natural resources. Mass also commits its own capital to promising enterprises and invests and otherwise trades to capture investment opportunities for its own account. Mass seeks to invest in businesses or assets whose intrinsic value is not properly reflected in their share price or value. Mass's investing is generally not passive. Mass seeks investments where its financial expertise and management can add or unlock value.

Merchant banking encompasses a broad spectrum of activities related to the integrated combination of banking, trading in commodities and natural resources, financing of commercial trade, and proprietary investing.

## Financial Relationships

A result of our company's growth is the need for financing which we meet through extensive cooperation with international financing institutions and credit insurers based on customized financial tools, international cooperation, extensive credit and risk management and structured financing. We have credit facilities of approximately \$325 million with banking institutions.

## Commodities and Natural Resources

Mass's merchant banking operations include the trading, principally for its own account, of commodities and natural resources. To a substantially lesser extent, Mass also acts as a trading agent for clients. Mass conducts its commodity and natural resources trading primarily through its wholly owned subsidiary, MFC Commodities GmbH, a trading, logistics and financial services company headquartered in Vienna, Austria that operates several overseas branches.

Mass's trading activities often utilize innovative and sophisticated trading strategies and structures. Mass currently trades with commodity traders and other producers who are unable to effectively realize sales because of insurance or currency issues affecting them or their principal customers. Generally, Mass purchases the underlying commodity and resells it to an end buyer. As a result of Mass's relative financial strength, ability to arrange financing and insurance, Mass is often able to facilitate purchases and sales of commodities with more efficient and effective execution than many producers and customers could manage on their own.

Mass has broadened its trading lines to include metals and minerals, chemicals and plastics, and wood products. The trading activities are supported by our logistics and financial services to provide cost effective and efficient transportation as well as funding for working capital requirements benefiting customers and partners. The investments Mass makes in commodity producers are part of its proprietary investing strategy.



## Proprietary Investments

Proprietary portfolio investing is an integral part of our financial service business. Through such investments we are able to more accurately quantify potential intrinsic value and fine-tune our strategies for realizing this value. Consequently, in our reporting to shareholders we must recognize these activities as proprietary and limit our public disclosure to operating and contractual activities. The sensitive nature and confidentiality requirements of the transactions are such that we can only discuss details of proprietary investments when they are completed.

## China Operations

Since 1998 Mass's platform of business activity in China has been as a provider of medical services. One of our businesses is the operation of technically advanced eye care centers (the "Centers") through cooperative joint ventures with government-controlled hospitals in China. Under such cooperative joint venture agreements, the hospitals provide the necessary space, medical staff to operate the Centers, and we provide the Centers with specialized



medical equipment, training and supervision with respect to certain surgical procedures, marketing expertise and management services. We generally retain ownership of the equipment we supply to the Centers during the term of the agreements.

We operate eye care centers and aesthetic centers in China and also sell and service specialized medical equipment and certain ophthalmic and aesthetic medical supplies. We are also the exclusive distributor in China of certain medical products.

### **Looking Ahead**

Our focus to date has been to establish strong relationships and a reputation for fiscal responsibility and risk management in the international financial community, and to demonstrate to our partners our skills in identifying opportunities with strong upside potential and then realizing that value. These superior fiscal credentials are crucial to support the expansion of our business. Going forward, Mass will utilize its foundation of financial services, resources, and its strategic network of operating businesses to vigorously pursue international opportunities for future growth. We will continue to manage our business activities for the long term, investing on the basis of our traditional disciplined approach while paying particular attention to the potential value to be realized by applying our financial expertise.

This is our foundation year; we have many areas where we wish to improve, including becoming more transparent, bearing in mind the constraints of our merchant banking activities.

I would like to thank our shareholders for their support and look forward to continued expansion and growth in the value of our assets.

Respectfully submitted,

Michael J. Smith  
President

**MASS FINANCIAL CORP.**  
**UNAUDITED INTERIM FINANCIAL STATEMENTS**  
**JUNE 30, 2007**

**MASS FINANCIAL CORP.**

**CONSOLIDATED BALANCE SHEETS**  
(U.S. Dollars in Thousands)

	<b>June 30</b>	<b>December 31</b>
	<b>2007</b>	<b>2006</b>
(Unaudited)		
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 124,608	\$ 99,078
Securities	64,164	36,787
Loans	2,406	7,587
Receivables from commodities transactions and other	49,072	28,587
Inventories	25,404	21,764
Real estate held for sale	-	597
Tax receivables	1,764	656
Prepaid and other	996	406
Total current assets	<u>268,414</u>	<u>195,462</u>
Non-current Assets		
Securities	3,651	3,403
Securities, restricted	9,357	9,357
Receivables	4,207	625
Property, plant and equipment	443	469
Goodwill	4,371	4,257
Deferred income tax assets	106	318
Equity method investments	16,511	16,546
Total non-current assets	<u>38,646</u>	<u>34,975</u>
	<u><u>\$ 307,060</u></u>	<u><u>\$ 230,437</u></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Financial liabilities	\$ 54,757	\$ 53,000
Accounts payable and accrued expenses	46,958	38,080
Long-term debt, current portion	-	200
Total current liabilities	<u>101,715</u>	<u>91,280</u>
Long-term Liabilities		
Long-term debt, less current portion	32,453	4,710
Financial liabilities	9,357	9,357
Deferred tax liabilities	62	168
Liabilities, preferred shares	85,449	77,976
Total long-term liabilities	<u>127,321</u>	<u>92,211</u>
Total liabilities	<u>229,036</u>	<u>183,491</u>
Minority Interests	7,604	1,815
Shareholders' Equity		
Common stock	2,591	2,591
Equity component of convertible debt	1,000	1,000
Retained earnings	75,109	41,092
Valuation allowance for available-for-sale securities	(1,057)	-
Currency translation adjustments	(7,223)	448
Total shareholders' equity	<u>70,420</u>	<u>45,131</u>
	<u><u>\$ 307,060</u></u>	<u><u>\$ 230,437</u></u>

The accompanying notes are an integral part of these consolidated financial statements

**MASS FINANCIAL CORP.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**  
 For the Six Months Ended June 30, 2007 and 2006  
 (Unaudited)  
 (U.S. Dollars in Thousands, Except Per Share Amounts)

	<b>2007</b>	<b>2006</b>
Revenues	\$ 265,863	\$ 194,485
Expenses		
Costs of sales	207,666	170,121
General and administrative	16,289	11,254
Interest	6,526	2,239
Other	491	254
	<u>230,972</u>	<u>183,868</u>
Income from operations before income taxes and minority interests	34,891	10,617
Provision for income taxes	<u>(315)</u>	<u>(78)</u>
Income from operations before minority interests	34,576	10,539
Minority interests	<u>(559)</u>	<u>(38)</u>
Net income	<u><u>\$ 34,017</u></u>	<u><u>\$ 10,501</u></u>
Earnings per share, basic	<u><u>\$ 2.00</u></u>	<u><u>\$ 0.77</u></u>
Earnings per share, diluted	<u><u>\$ 1.46</u></u>	<u><u>\$ 0.77</u></u>
Number of weighted average shares outstanding, basic	17,044,229	13,635,383
Number of weighted average shares outstanding, diluted	<u><u>23,309,893</u></u>	<u><u>13,635,383</u></u>

The accompanying notes are an integral part of these consolidated financial statements

# MASS FINANCIAL CORP.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2007 and 2006

(Unaudited)

(U.S. Dollars in Thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Net income	\$ 34,017	\$ 10,501
Adjustments for:		
Amortization and depreciation	124	109
Minority interests	559	38
Gain on securities held for trading	(27,099)	(7,807)
Changes in operating assets and liabilities, net pf effects of acquisitions and dispositions		
Short-term securities	(2,496)	(427)
Restricted cash	-	3
Receivables from commodities transactions	(21,434)	(1,906)
Receivables, other	1,496	903
Inventories	(3,054)	(11,987)
Real estate held for sale	597	(11)
Accounts payable and accrued expenses	15,799	(10,819)
Financial liabilities, commodities transactions	38,731	23,898
Deferred income taxes	(173)	100
Prepaid and other	(616)	(23)
Other	<u>(5,542)</u>	<u>(2,092)</u>
Cash flows provided by operating activities	30,909	480
Cash flows from investing activities		
Net decrease (increase) in loans	2,805	(1,318)
Sales (purchases) of long-term securities, net	-	23
Purchases of property, plant and equipment	(91)	(45)
Purchases of subsidiaries, net of cash acquired	(32)	(13)
Distributions from joint ventures, net	<u>1,734</u>	<u>1,277</u>
Cash flows provided by (used in) investing activities	4,416	(76)
Cash flows from financing activities		
Net decrease in amounts owed to depositors	(11,246)	-
Borrowings	383	1,469
Debt repayments	<u>(200)</u>	<u>-</u>
Cash flows (used in) provided by financing activities	(11,063)	1,469
Exchange rate effect on cash and cash equivalents	<u>1,268</u>	<u>592</u>
Increase in cash and cash equivalents	25,530	2,465
Cash and cash equivalents, beginning of period	<u>99,078</u>	<u>26,185</u>
Cash and cash equivalents, end of period	<u><u>\$ 124,608</u></u>	<u><u>\$ 28,650</u></u>

The accompanying notes are an integral part of these consolidated financial statements

**MASS FINANCIAL CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2007**  
**(Unaudited)**

**Note 1. Basis of Presentation**

The consolidated financial statements therein include the accounts of Mass Financial Corp. and its subsidiaries (collectively, the “Company”). The notes are stated in United States dollars (unless otherwise indicated), as rounded to the nearest thousands (except per share amounts).

The interim period consolidated financial statements have been prepared by the Company in accordance with International Financial Reporting Standards (“IFRS”), which include International Accounting Standards (“IAS”) and Interpretations adopted by International Accounting Standards Board (the “IASB”). The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the most recent annual financial statements. Certain information and footnote disclosure normally included in consolidated financial statements prepared in accordance with IFRS have been condensed or omitted. These interim period financial statements should be read together with the audited consolidated financial statements and the accompanying notes included in the Company’s latest annual report. In the opinion of the Company, its unaudited interim consolidated financial statements contain all normal recurring adjustments necessary in order to present a fair statement of the results of the interim periods presented. The results of the periods presented herein may not be indicative of the results for the entire year.

Certain prior period amounts have been reclassified to conform to the current period’s presentation.

**Note 2. Nature of Business**

The Company was a wholly-owned subsidiary of KHD Humboldt Wedag International Ltd. (“KHD”) until January 31, 2006 when KHD distributed to its shareholders all of its Class A Common Shares in the Company so that the Company became a separate company owned by the shareholders of KHD. In November 2006, the Company, through its wholly-owned subsidiary, purchased the entire equity interest in MFC Merchant Bank S.A. (“MFC Bank”) from KHD.

The Company is in the merchant banking business and its principal activities focus on provision of financial services. This includes financial advisory services, proprietary investing and trading activities on an international basis which are facilitated by the Company’s trading subsidiaries. The Company seeks investments in many industries, emphasizing those business opportunities where the perceived intrinsic value is not properly recognized. The Company uses its financial and management expertise to add value within a relatively short time period. The Company also trades in commodities and natural resources, engaged in logistics business and provides trade financing. The Company, through its regional office based in Shanghai, China, markets its medical equipment, instruments and supplies.

**Note 3. Preferred Shares**

As of June 30, 2007 and December 31, 2006, the Company had Cdn\$127,866 Series 2, Class B preferred shares outstanding, all of which are held by KHD. In the legal format, Class B preferred shares are share capital of the Company and, accordingly, they are ranked behind

the Company's creditors in the event of liquidation, dissolution or winding up of the Company.

The Class B preferred shares of the Company, which are issued in series, are non-voting and pay an annual dividend of 4.4367% on December 31 of each year, commencing December 31, 2007. The Company may, at its option and at any time, redeem all or any number of the outstanding Class B preferred shares. Beginning December 31, 2011 and each year thereafter, the holder of Class B preferred shares is entitled to cause the Company to redeem up to that number of Class preferred shares which have an aggregate redemption amount equal to but not exceeding 6 2/3% of Cdn\$127,866. In the event of liquidation, dissolution or winding up of the Company, the holder of the Class B preferred shares is entitled to receive in preference and priority over the common shares and Class A common shares of the Company an amount equal to the Class B preferred shares redemption amount plus any declared and unpaid dividends thereon. No class of shares may be created or issued ranking as to capital or dividend prior to or on parity with the Class B preferred shares without the prior approval of the holder of the Class B preferred shares. The Company's Class B preferred shares are classified as a financial liability instrument by the Company under IAS 32, *Financial Instrument: Presentation and Disclosure*, as the preferred shares are retractable by the holder.

Pursuant to a loan agreement and a pledge agreement between KHD and the Company, KHD had an inter-corporate indebtedness due to the Company of Cdn\$37,000 as at June 30, 2007 and December 31, 2006, as evidenced by a promissory note. The promissory note bears interest at 4.4367% per annum, with the first annual payment to be made on December 31, 2007. Beginning December 31, 2011 and each year thereafter, the Company will repay a principal amount of Cdn\$2,467 each year, over a 15-year period. Under the pledge agreement, KHD deposits in pledge with the Company the collateral (KHD's investment in the Company's Class B preferred shares) to be held for the benefit of the Company as continuing security for the due payment of the promissory note.

Under a letter agreement, the Company and KHD agree that at any time KHD repays to the Company any portion of the principal amount of the promissory note, the Company shall redeem not less than Cdn\$3.34784 Class B preferred shares for every Cdn\$1 promissory note repaid. The two parties also agree that at any time the Company redeems or retracts its Class B preferred shares, KHD shall repay to the Company Cdn\$0.2987 of the promissory note for every Cdn\$1 Class B preferred shares redeemed. Since the criteria for offsetting a financial asset and a financial liability as outlined in IAS 32 are met, the Company's Class B preferred shares are offset and reduced by the promissory note owed by KHD and the net amount is reported in the Company's consolidated balance sheet.

#### **Note 4. Transactions with KHD**

In November 2006, the Company, through its wholly-owned subsidiary, purchased the entire equity interest in MFC Bank from KHD. The consideration was determined by reference to KHD's carrying value of its investment in MFC Bank as of September 30, 2006 of Cdn\$77,902 and comprised cash of Cdn\$38,792 (Cdn\$31,081 paid in November 2006 and Cdn\$7,711 to be paid on or before the Payment Date (which is defined as the day which is earlier of 30 calendar days after (i) the date on which a triggering event (as defined) has occurred and (ii) March 31, 2007)), a short-term promissory note of Cdn\$8,000 due November 2007 bearing interest at 5% per annum, and 790,000 shares of common stock in KHD valued at initial share value of \$27,555 (Cdn\$31,110). The initial valuation of 790,000 shares of common stock in KHD was subject to an adjustment which was equal to the positive balance, if any, between the initial share value and the market price on the Payment Date.

The Company and KHD agreed that April 30, 2007 was the Payment Date and the market price of KHD common stock was \$47.63 per share on the Payment Date. Accordingly, an adjustment of \$10,073 was credited to the income account by Company in 2007 and was debited to the payable account. The wholly-owned subsidiary of the Company sold 9.9% common shares in MFC Bank to KHD for \$7,180 on the Payment Date, resulting in a gain of \$1,127.

#### **Note 5. Related Party Transactions**

In the normal course of operations, the Company enters into transactions with related parties which include affiliates which the Company has a significant equity interest (10% or more) in the affiliates or has the ability to influence the affiliates' operating and financing policies through significant shareholding, representation on the board of directors, corporate charter and/or bylaws. These related party transactions are measured at the exchange value, which represent the amounts of consideration established and agreed to by the parties. In addition to transactions disclosed elsewhere in the financial statements, the Company had the following transactions with affiliates during the six months ended June 30, 2007.

During the six months ended June 30, 2007, the Company sold \$1,507 of commodities and \$165 of medical goods to affiliates and purchased \$62,171 of commodities from affiliates. The Company recognized interest income of \$921 from affiliates and paid interest expense of \$1,813 to affiliates. The Company recognized dividend income of \$323 and other income of \$1,989 from and paid expenses of \$390 to affiliates. The Company recognized an equity income of \$1,780 from equity method investees.

The Company sold an available-for-sale security of \$42 to and purchased a long-term investment of \$63 and an available-for-sale security of \$8,877 from an affiliate at their fair values. No gain or loss was recognized on the sale.

As at June 30, 2007, the Company had \$13,326 due from affiliates and \$20,009 due to affiliates. In addition, the Company had a current investment of \$47,852 and long-term investments of \$3,080 in affiliates at June 30, 2007.

## CORPORATE INFORMATION

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### DIRECTORS AND EXECUTIVE OFFICERS

Michael J. Smith      Director, President  
David C. Csumrik      Director, Secretary  
Eugene Chen      Director  
Ravin Prakash      Director

*Director since 1997*  
*Director since 2003*  
*Director since 2005*  
*Director since 2005*

### TRANSFER AGENT

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Barbados

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