天譽置業（控股）有限公司*
SKYFAME REALTY (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)
(Stock Code: 00059)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

FINAL RESULTS

The board (the "Board") of directors (the "Directors") of Skyfame Realty (Holdings) Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008, together with comparative figures for the corresponding year of 2007.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000
Revenue	3	**564,650**	125,631
Cost of sales and services		**(335,813)**	(65,804)
Gross profit		**228,837**	59,827
Other income		**4,066**	493
Sales and marketing expenses		**(22,569)**	(9,091)
Administrative expenses		**(179,831)**	(134,917)
Fair value changes in investment properties		**(119,263)**	(22,926)
Impairment loss on goodwill		**(66,511)**	-
Fair value changes in financial derivative liabilities			
- convertible notes		**976,924**	267,789
- convertible preference shares		**-**	(11,507)
Discount on business combinations		**-**	67,965
Share of profit of associate, net of tax		**-**	8,251
Finance costs	4	**(189,957)**	(79,877)
Finance income	4	**2,982**	14,089
Profit before income tax	5	**634,678**	160,096
Income tax credit	6	**49,670**	61,239
Profit for the year		**684,348**	221,335
Attributable to:			
- Equity holders of the Company		**685,128**	209,078
- Minority interests		**(780)**	12,257
		684,348	221,335
Dividends	7	**Nil**	Nil
Earnings (loss) per share	8		
- *Basic*		**HK46.337 cents**	HK17.398 cents
- *Diluted*		**(HK13.484 cents)**	(HK1.750 cents)

** for identification purposes only*

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment		**1,046,987**	1,017,087
Prepaid lease payments - non-current portion	*9*	**736,550**	223,808
Investment properties		**401,543**	492,325
Properties held for development		**962,867**	1,529,339
Goodwill		**68,316**	118,088
Deposits paid for acquisition of land use right		**-**	32,408
		3,216,263	3,413,055
Current assets			
Properties held for sale		**573,808**	603,427
Prepaid lease payments - current portion	*9*	**494,718**	445,191
Properties under development		**86,268**	-
Inventories		**19,542**	31,790
Trade and other receivables	*10*	**33,900**	31,016
Restricted and pledged deposits		**67,737**	358,711
Cash and cash equivalents		**53,720**	63,338
		1,329,693	1,533,473
Assets classified as held for sale	*12*	**713,399**	-
		2,043,092	1,533,473
Current liabilities			
Trade and other payables	*11*	**219,761**	241,904
Bank and other borrowings - current portion		**280,228**	242,790
Deferred income		**3,779**	-
Income tax payable		**48,080**	24,161
		551,848	508,855
Liabilities associated with assets classified as held for sale	*12*	**108,884**	-
		660,732	508,855
Net current assets		**1,382,360**	1,024,618
Total assets less current liabilities		**4,598,623**	4,437,673
Non-current liabilities			
Other payable	*11*	**63,573**	63,573
Bank and other borrowings - non-current portion		**1,042,480**	940,339
Convertible notes		**306,337**	211,946
Financial derivative liabilities		**93,162**	1,081,572
Loan from minority shareholder of a subsidiary	*13*	**273,968**	-
Deferred tax liabilities		**273,674**	453,561
		2,053,194	2,750,991
Net assets		**2,545,429**	1,686,682
Capital and reserves			
Share capital		**14,777**	14,659
Reserves		**2,505,918**	1,672,023
Equity attributable to equity holders of the Company		**2,520,695**	1,686,682
Minority interests		**24,734**	-
Total equity		**2,545,429**	1,686,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

1. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their revalued amounts or fair values:

- investment properties; and
- derivative financial instruments.

Assets and liabilities classified as held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

(c) Going concern

Notwithstanding that the Group had other short-term borrowings of HK$220,000,000 (the "Term Loan") which are overdue and remain outstanding at the date of authorisation for issue of the consolidated financial statements, and, after the balance sheet date, certain terms stipulated in the note purchase agreement in relation to the US$200million convertible notes (the "Notes") with outstanding principal value of approximately HK$1,499,885,000 at the balance sheet date have not been complied with, the consolidated financial statements have been prepared on a going concern basis as the Directors are of the opinion that the Company and the Group will be able to continue as a going concern and to meet their obligations as and when they fall due having regard to the development of the events after the balance sheet date as described in *note 15* and the following arrangements and plans:

(1) The Group's transaction to disposes of its 80% equity interest in the Tianhe Project as described in *note 15* would be completed on schedule in late May 2009.

(2) The Term Loan was due for repayment on 29 January 2009. On 16 January 2009 the Group entered into a standstill arrangement with the lenders of the Term Loan. Under the standstill arrangement, the lenders agreed to refrain from exercising their rights and remedies under the relevant terms of the Term Loan until 19 February 2009.

In addition to the aforesaid standstill arrangement, the Group subsequently entered into several standstill arrangements with the same lenders. In accordance with the latest standstill arrangement dated 7 April 2009, the lenders agreed to refrain from exercising their rights and remedies under the relevant terms of the Term Loan until 17 April 2009.

The Directors believe that the standstill arrangements are a positive indication of continuing support from the lenders of the Term Loan. With a view to securing the continuing support from the lenders, the Directors do not expect that the lenders will require the Group to repay the Term Loan on the expiry date of the standstill arrangement of 17 April 2009 or before the disposal of the Group's 80% equity interest in the Tianhe Project as described in *note 15*. The disposal by the Group of the 80% equity interest in the Tianhe Project would reduce substantial part but not all of the Term Loan. Nevertheless, the Directors believe that the lenders would provide support on a long-term basis to further postpone the repayment of any remaining part of the Term Loan.

(3) New banking facilities have been and will be available to the Group from financial institutions to finance work in progress of the Zhoutouzui and Guiyang Projects in accordance with respective construction timetables.

(4) The Directors believe that the holders of the Notes will agree to refrain from exercising their rights of:

(i) an early redemption of the Notes to the extent of the principal amount of US$75,000,000 (approximately HK$585,893,000) and payment of accrued interests of approximately HK$152,988,000 (the "Automatic Redemption") that is eligible from 31 March 2009 onwards, which has been extended to 31 May 2009, if the Group fails to fulfill the conditions stipulated in the trust deed of the Notes (the "Trust Deed"); and

(ii) the put option, which is exercisable from 4 May 2010 onwards and the redemption amount under which shall not exceed 30% of the principal value of the Notes at the date of issue plus accrued interests.

(5) Taking in the prevailing circumstances, the Directors believe that a debt rescheduling plan can be arranged to relax the terms and conditions of the Notes including extending the timing of the Automatic Redemption and the put option under the Trust Deed.

(6) Assets can be realised to provide additional funding to remedy the potential claims from the lenders of the Term Loan and the Automatic Redemption and early put option under the Trust Deed, should there be no rescheduling plan executed.

(7) The Directors believe that the non-compliances in repayment of the Term Loan occurred after the balance sheet date and the Notes as stated in *note 15* will be remedied and there will not be any other events triggering acceleration of repayment of debts such as redemption of the Notes and demand for immediate servicing of debts nor there will be any claims for consequential losses or damages.

The Directors believe that the Company and the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the consolidated financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Company and the Group fail to continue as a going concern.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("New HKFRSs")

(a) Impact of New HKFRSs which are effective during the year

In the current year, the Group has applied, for the first time, the following amendments and new interpretations issued by the HKICPA, that are effective for the current accounting period of the Group.

Amendments to HKAS 39 and HKFRS 7	Reclassification of Financial Assets
HK(IFRIC) – Interpretation 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Interpretation 12	Service Concession Arrangements
HK(IFRIC) – Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above amendments and new interpretations had no material effect on the results of the Group or financial position of the Group and the Company for the current and prior accounting periods and no prior period adjustment has been recognised.

(b) Potential impact arising on New HKFRSs not yet effective

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

HKFRSs Amendments	Improvements to HKFRSs [1]
HKAS 1 (Revised)	Presentation of Financial Statements [2]
HKAS 23 (Revised)	Borrowing Costs [2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [3]
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation [2]
HKAS 39 Amendment	Eligible Hedged Items [3]
HKFRS 1 and HKAS 27 Amendments	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [2]
Amendments to HKFRS 7	Improving Disclosure about Financial Instruments [2]
Amendments to HK(IFRIC) – Interpretation 9 and HKAS 39	Embedded Derivatives [6]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [3]
HKFRS 2 Amendment	Share-based Payment – Vesting Conditions and Cancellations [2]
HKFRS 3 (Revised)	Business Combinations [3]
HKFRS 8	Operating Segments [2]
HK(IFRIC) – Interpretation 13	Customer Loyalty Programmes [4]
HK(IFRIC) – Interpretation 15	Agreements for the Construction of Real Estate [2]
HK(IFRIC) – Interpretation 16	Hedges of a Net Investment in a Foreign Operation [5]
HK(IFRIC) – Interpretation 17	Distributions of Non-cash Assets to Owners [3]
HK(IFRIC) – Interpretation 18	Transfers of Assets from Customers [7]

[1] *Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5 which are effective for annual periods beginning on or after 1 July 2009.*

[2] *Effective for annual periods beginning on or after 1 January 2009.*

[3] *Effective for annual periods beginning on or after 1 July 2009.*

[4] *Effective for annual periods beginning on or after 1 July 2008.*

[5] *Effective for annual periods beginning on or after 1 October 2008.*

[6] *Effective for annual periods ending on or after 30 June 2009.*

[7] *Effective for transfers of assets from customers received on or after 1 July 2009.*

The adoption of HKFRS 3 (Revised) may affect the accounting policy on business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of HKAS27 (Revised) may affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control which will be accounted for as equity transactions. The adoption of HK(IFRIC) – Interpretation 15 may affect the accounting treatment on revenue recognition of an entity engaged in the construction of real estate. However, the Group's current accounting policy is already in compliance with HK(IFRIC) – Interpretation 15. The adoption of HKAS 1 (Revised) and HKFRS 8 may result in new or amended disclosures.

Except for these, the Directors anticipate that the application of the other New HKFRSs will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

For management purposes, the Group is currently organised into four operating divisions – property development, property investment, hotel operation and related ancillary services ("hotel operation") and property project management and interior decoration services ("project management"). As over 90% of the Group's segment revenue and segment results were derived from the People's Republic of China (the "PRC"), no segment information has been disclosed in respect of the Group's geographical segments. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property development	-	Property development and sale of properties
Property investment	-	Property leasing
Hotel operation	-	Hotel operation and provision of related ancillary services
Project management	-	Provision of property development project management and interior decoration services

An analysis of the Group's revenue is as follows:

	2008	2007
	HK$'000	HK$'000
Sale of properties	**257,399**	505
Rental income	**51,832**	20,462
Hotel operation	**255,419**	102,190
Property development project management and interior decoration service fees	**-**	2,474
	564,650	125,631

The Group's revenue and results by business segment for the year ended 31 December 2008, together with the comparative figures for the corresponding year of 2007, are presented below:

	Property development	Property investment	Hotel operation	Project management	Corporate	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results for the year ended 31 December 2008						
External sales and segment revenue	289,886	19,345	255,419	-	-	564,650
Segment results	32,142	14,420	10,363	517		57,442
Corporate operating expenses					(26,939)	(26,939)
Fair value changes in investment properties		(119,263)				(119,263)
Impairment loss on goodwill	(66,511)					(66,511)
Fair value changes in financial derivative liabilities						
- convertible notes						976,924
Finance costs						(189,957)
Finance income						2,982
Profit before income tax						634,678
Income tax credit						49,670
Profit for the year						684,348
Assets and liabilities as at 31 December 2008						
Assets						
Assets classified as held for sale	713,399	-	-	-	-	713,399
Other segment assets	2,671,643	403,731	1,242,211	-	228,371	4,545,956
	3,385,042	403,731	1,242,211	-	228,371	5,259,355
Liabilities						
Liabilities associated with assets classified as held for sale	108,884	-	-	-	-	108,884
Other segment liabilities	705,535	21,995	69,893	-	1,807,619	2,605,042
	814,419	21,995	69,893	-	1,807,619	2,713,926
Other segment information for the year ended 31 December 2008						
Capital expenditure	761,128	-	38,083	-	13,963	813,174
Depreciation and amortisation	22,077	10	78,195	-	6,641	106,923

	Property development	Property investment	Hotel operation	Project management	Eliminations	Corporate	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results for the year ended 31 December 2007							
External sales	2,420	18,547	102,190	2,474	-	-	125,631
Inter-segment sales	-	424	-	-	(424)	-	-
Segment revenue	2,420	18,971	102,190	2,474	(424)	-	125,631
Segment results	(13,190)	10,404	(35,533)	(1,813)			(40,132)
Corporate operating expenses						(43,556)	(43,556)
Fair value changes in investment properties		(22,926)					(22,926)
Fair value changes in financial derivative liabilities							
- convertible notes							267,789
- convertible preference shares							(11,507)
Discount on business combinations	67,965						67,965
Share of profit of associate, net of tax	8,251						8,251
Finance costs							(79,877)
Finance income							14,089
Profit before income tax							160,096
Income tax credit							61,239
Profit for the year							221,335
Assets and liabilities as at 31 December 2007							
Assets							
Segment assets	2,703,455	504,727	1,200,016	277	-	538,053	4,946,528
Liabilities							
Segment liabilities	372,394	16,701	124,886	155	-	2,745,710	3,259,846
Other segment information for the year ended 31 December 2007							
Capital expenditure	187,669	-	210,158	45	-	8,964	406,836
Depreciation and amortisation	8,530	25	45,997	23	-	2,010	56,585

4. FINANCE COSTS AND INCOME

	2008	2007
	HK$'000	HK$'000
Finance costs:		
Interest on convertible notes		
- wholly repayable within five years	**156,571**	-
- wholly repayable after five years	**-**	78,348
Interest on bank and other borrowings		
- wholly repayable within five years	**36,821**	12,125
- wholly repayable after five years	**74,742**	47,884
Imputed interest on loan from minority shareholder of a subsidiary	**-**	6,020
	268,134	144,377
Less: Amount capitalised as properties held for/under development	**(80,567)**	(72,701)
	187,567	71,676
Issue cost on derivative components of convertible notes	**-**	6,905
Other borrowing costs	**2,390**	1,296
Finance costs charged to consolidated income statement	**189,957**	79,877
Finance income:		
Bank interest income	**2,669**	12,076
Other interest income	**313**	2,013
	2,982	14,089

5. PROFIT BEFORE INCOME TAX

Profit before income tax for the year has been arrived at after charging (crediting):

	2008	2007
	HK$'000	HK$'000
Cost of materials sold	**25,002**	13,031
Cost of properties sold	**109,805**	695
Prepaid lease payments recognised as cost of sales	**90,495**	174
Staff costs, including directors' emoluments	**71,325**	46,622
Equity-settled share-based payment expenses		
- staff and directors (included in staff costs)	**1,478**	3,768
- non-employees	**-**	8,794
	1,478	12,562
Auditors' remuneration - current year	**1,160**	1,380
Depreciation of property, plant and equipment	**77,992**	43,821
Less: Amount capitalised as properties held for/under development	**(6)**	(18)
Total depreciation charged to consolidated income statement	**77,986**	43,803
Amortisation of prepaid lease payments	**28,931**	12,764
Less: Amount capitalised as properties held for/under development	**(8,161)**	(6,441)
Total amortisation charged to consolidated income statement	**20,770**	6,323
Share of loss before tax of associate	**-**	31
Share of tax credit of associate	**-**	(8,282)

6. INCOME TAX CREDIT

	2008	2007
	HK$'000	HK$'000
Current tax		
Hong Kong profits tax		
- under provision in respect of prior years	-	(620)
Overseas corporate tax		
- current year	(9,010)	(5,740)
- over (under) provision in respect of prior years	1,282	(43)
PRC land appreciation tax		
- current year	(22,917)	-
- over provision in respect of prior years	-	2,631
	(30,645)	(3,772)
Deferred tax		
- current year	53,982	6,522
- over provision in respect of prior years	26,333	-
- attributable to decrease in tax rate	-	58,489
	80,315	65,011
Total income tax credit	49,670	61,239

No provision for Hong Kong profits tax has been made for the year ended 31 December 2008 (2007: HK$Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. The applicable Hong Kong profits tax rate is 16.5% (2007: 17.5%) for the year.

Enterprise income tax ("EIT") arising from other regions of the PRC is calculated at 25% (2007: 33%) of the estimated assessable profits. Taxation for the Group's operations outside Hong Kong is provided at the applicable current rates of taxation on the estimated assessable profits in the relevant jurisdiction during the year.

The provision of PRC land appreciation tax ("LAT") is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

7. DIVIDENDS

The Directors do not recommend payment of any dividend for the year ended 31 December 2008 (2007: Nil).

8. EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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

	2008	2007
	HK$'000	HK$'000
Earnings for the purposes of basic earnings per share	**685,128**	209,078
Effect of dilutive potential ordinary shares:		
Fair value changes in financial derivative liabilities in relation to convertible notes	**(976,924)**	(267,789)
Finance costs on convertible notes (excluding capitalised interest)	**90,811**	33,360
Loss for the purposes of diluted loss per share	**(200,985)**	(25,351)

	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,477,291**	1,201,764
Effect of dilutive potential ordinary shares:		
- Bonus warrants	**13,256**	61,639
- Convertible notes	**-**	173,518
- Share options	**-**	12,074
Weighted average number of ordinary shares for the purposes of diluted loss per share	**1,490,547**	1,448,995

9. PREPAID LEASE PAYMENTS

During the year ended 31 December 2008, additions of prepaid lease payments amounted to approximately HK$637,936,000 (2007: HK$632,987,000) in relation to the land costs of a new property development project of the Group.

10. TRADE AND OTHER RECEIVABLES

The following is an ageing analysis of trade receivables at the balance sheet date:

	2008	2007
	HK$'000	HK$'000
Current or less than 1 month	**4,191**	3,988
1 to 3 months	**1,000**	1,892
More than 3 months but less than 12 months	**122**	1,154
More than 1 year	**575**	603
Total trade receivables	**5,888**	7,637
Loan receivable	**-**	9,192
Deposits, prepayments and other receivables	**28,012**	14,187
	33,900	31,016

The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The Group's formal credit policy in place is to monitor the Group's exposure to credit risk through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

11. TRADE AND OTHER PAYABLES

	Notes	**2008** HK$'000	2007 HK$'000
Current or less than 1 month		**35,678**	8,462
1 to 3 months		**2,761**	3,467
More than 3 months but less than 12 months		**986**	1,583
More than 12 months		**5,761**	4,743
Total trade payables		**45,186**	18,255
Retention money payable for construction costs	*(a)*	**3,888**	25,649
Construction costs payable		**62,688**	128,944
Balance of consideration payable for acquisition of a subsidiary	*(b)*	**63,573**	63,573
Advanced payments received from customers		**22,140**	8,196
Accruals and other payables		**85,859**	60,860
		283,334	305,477
Amounts due within one year included in current liabilities		**(219,761)**	(241,904)
Amounts due after one year		**63,573**	63,573

Notes:

(a) For retention money payable in respect of construction contracts, the due dates are usually one year after the completion of the construction work but are within the normal operating cycle of the property development business of the Group.

(b) This represents the balance of consideration payable to the vendor for acquisition of a subsidiary in 2006. The amount is expected to be settled in the form of a two-year promissory note which will be issued upon obtaining the land use right certificate attributable to one of the property development projects, bearing an interest rate of 8% per annum from the date of issue.

By virtue of a supplemental agreement dated 20 October 2008 entered into with the creditor, commencing 1 January 2009, the terms of the amount payable were changed to interest-bearing at a rate of 20% per annum, unsecured and the principal together with accrued interest repayable on or before 31 December 2010.

12. ASSETS AND LIABILITIES OF DISPOSAL GROUP HELD FOR SALE

The assets and liabilities attributable to the Tianhe Project, which is determined to be disposed of as at 31 December 2008, have been included in the consolidated balance sheet as assets classified as held for sale and liabilities associated with assets classified as held for sale respectively. The proposed disposal will not lead to discontinued operation since the scale of property development business of the Group will not be significantly curtailed. The carrying amounts of the major assets and liabilities in this disposal group as at 31 December 2008 are as follows:

	2008
	HK$'000
Assets classified as held for sale	
Properties held for development	**712,343**
Other assets	**1,056**
	713,399
Liabilities associated with assets classified as held for sale	
Deferred tax liabilities	**107,787**
Other liabilities	**1,097**
	108,884
Net assets classified as held for sale	**604,515**

13. LOAN FROM MINORITY SHAREHOLDER OF A SUBSIDIARY

The balance is unsecured, interest-free and has no fixed terms of repayment but is agreed not to be repayable within the eighteen months from the balance sheet date.

14. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	HK$'000
Capital expenditure contracted but not provided for in the consolidated financial statements in respect of:		
- Property construction and development costs	**1,167,158**	915,973
- Acquisition of land use right and payment for demolition costs	**-**	286,296
	1,167,158	1,202,269

15. EVENTS AFTER THE BALANCE SHEET DATE

(a) Disposal of 80% equity interest in the Tianhe Project

Further to a framework agreement entered into on 24 February 2009 between the Company as the guarantor, Sky Honest Investments Corp. and Nicco Limited, both being subsidiaries of the Company, as the vendors, and two third parties as the purchasers for the disposal of 80% equity interest in Yaubond Limited, a subsidiary of Sky Honest Investments Corp. and Nicco Limited holding 100% indirect interest in the Tianhe Project, a formal sale and purchase agreement is expected to be entered into by the parties, subject to the review by the holders of the Notes and the final terms to be agreed by the purchasers. It is expected that on completion, out of the total consideration of RMB368,000,000 (approximately HK$417,471,000), (i) an amount of approximately HK$340,330,000 will be applied to partial settlement of the overdue Term Loan of principal value of HK$220,000,000 and partial redemption of the Notes in consideration of the release of the share charges of Yaubond Limited; and (ii) the remaining proceed of RMB68,000,000 (approximately HK$77,141,000) will be contributed as the working capital of the Group. The Group will retain a minority stake of 20% equity interest in the Tianhe Project for which the Group holds a put option to sell to the purchasers.

(b) Early redemption of convertible notes

Pursuant to condition 8E(ii) of the Trust Deed entered into by the Company and The Hong Kong and Shanghai Banking Corporation Limited as the trustee for the subscribers of the Notes issued on 4 May 2007, as amended by a supplemental trust deed dated 22 January 2008 and further resolved by the noteholders in a special committee meeting held on 10 June 2008, the noteholders have an automatic right to redeem outstanding notes of principal value of US$75,000,000 if the Group cannot obtain the land use right certificate for the Zhoutouzui Project on or before 31 March 2009. The timeline was further extended to (i) 31 May 2009 by the noteholders pursuant to a consent letter issued by the committee of the noteholders to the Company on 31 March 2009; or (ii) if a plan of restructuring of the terms and conditions of the Notes can be agreed between the Company and the noteholders, such later date as the noteholders may agree. The Directors, after reviewing the current progress of the development, believe that the transfer of the land use right certificate is imminent and shall be able to match with the timing set by the extended date. In the situation where the land use right certificate cannot be obtained by then, the noteholders may, according to the consent letter, agree on a further extension. Should there be an automatic redemption for the principal value of US$75,000,000, the Directors envisage that a feasible debt restructuring plan can be agreed upon with the noteholders which facilitate the redemption being undergone in an orderly manner simultaneously with the Group's realisations of assets or any other refinancing plans. The Directors expect that the restructuring plan will lead to relaxation of the terms and conditions of the Notes which will include extending the redemption and put option rights. However, no concrete details of the plan have been agreed upon up to the date of this announcement.

16. COMPARATIVE FIGURES

The comparative figures of prepaid lease payments – current and non-current portions included in the consolidated balance sheet as at 31 December 2007 have been reclassified to conform to the classification of the associated assets. The Directors consider that the reclassification will result in more relevant presentation for the benefits of the equity holders of the Company.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

The independent auditor has given disclaimer of opinion on the Group's consolidated financial statements for the year ended 31 December 2008. The disclaimer of opinion is as follows:

"Basis for disclaimer of opinion: material uncertainty relating to the going concern basis

As described in *notes 32(b)* and *33* to the consolidated financial statements, the Group has failed to repay other borrowings of HK$220,000,000 on the due date of 29 January 2009 and, after the balance sheet date, the following terms stipulated in the note purchase agreement in relation to the convertible notes with outstanding principal value of approximately HK$1,499,885,000 (the "Notes") at the balance sheet date have not been complied with:

(1) the Group has not yet been able to obtain the land use right certificate for one of the property development projects within the agreed timeframe with the holders of the Notes; and

(2) as a result of (1) above, there can be an early redemption of the Notes to the extent of the principal amount of approximately HK$585,893,000 and payment of accrued interests of approximately HK$152,988,000.

In forming our opinion, we have considered the adequacy of the disclosures made in *note 3(c)* to the consolidated financial statements concerning the adoption of the going concern basis on which the consolidated financial statements have been prepared. The Group is currently undertaking a number of measures to remedy the non-compliances. The appropriateness of preparing the Group's and the Company's financial statements on the going concern basis depends on the outcomes of (i) further agreements that can be reached between the Group and these lenders of borrowings; (ii) the arrangement of a debt rescheduling plan to relax the terms and conditions of the Notes; (iii) obtaining new banking facilities to finance certain property development projects and (iv) realisation of certain assets to provide additional funding as necessary. We consider that appropriate disclosures have been made; however, we consider that this material uncertainty is so extreme that we disclaim our opinion in respect of the appropriateness of the going concern basis. The financial statements of the Group and the Company do not include any adjustments that would be necessary if the Group failed to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the carrying value of the Group's and the Company's assets to their recoverable amounts, to provide further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. Such adjustments may have a consequential significant effect on the Group's and the Company's net assets as at 31 December 2008 and the Group's profit for the year then ended.

Disclaimer of opinion

Because of the significance of the material uncertainty relating to the going concern basis, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance."

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business Review

During the year ended 31 December 2008, the Group recorded a total turnover of HK$565 million (2007: HK$126 million), representing a 4.5 times of that in the last year. The increase in turnover was contributed by revenue from hotel operation of HK$255 million (2007: HK$102 million) which represents operating result for the first full calendar year since the grand opening of the Westin Hotel Guangzhou in October 2007, and the sales of approximately 9,000 sq m of the floor area of office spaces in Skyfame Tower which was completed in late 2007, giving rise to sale revenue of HK$257million (2007: HK$0.5 million).

The operation turned to be become profitable in the year as a result of the growing turnover and the operating costs which became stabilized. The segment results after deduction of corporate operating expenses was a profit of HK$31 million (2007: loss of HK$84 million) after depreciation and amortization of lease premium of HK$99 million (2007: HK$50 million) charged mainly for the hotel operation.

Finance costs, consisting of effective interests amortised on convertible notes (the "Notes"), interests paid to banks and financial institutions on borrowings, so far not capitalized as development costs, amount to HK$190 million (2007: HK$80 million). Due to adjustment in property prices in the year led by the PRC central government's austerity measures, the Group records revaluation losses of HK$119 million (2007: HK$23 million), net of income tax credit of HK$50 million (2007: HK$61 million), and write down of goodwill of HK$67 million (2007: HK$Nil). However, the decrease in fair value of financial derivative embedded in the Notes as induced by the sharp declines in the prices of the Company's shares during the year against which the valuation was benchmarked leads to an exceptional gain of HK$977 million (2007: HK$268 million) for the year. The outstanding face value of the Notes is US$192 million (2007: US$194 million) (equivalent to approximately HK$1,500 million) whilst the carrying value of the Notes, in aggregate of the liability and financial derivative components, is HK$399 million (2007: HK$1,294 million) as shown on the balance sheet. All these factors combine to a profit attributable to shareholders of HK$685 million (2007: HK$209 million) for the year.

Since the completion of various acquisitions in 2007, the Group has completely reformed to a property developer in the mainland China. The Group's revenue now comprises primarily revenue from hotel operation and rental income from leasing of investment properties and sale of developed properties.

Hotel Operation

The Group gained encouraging operating results from the operation of its signature property, the Westin Guangzhou. Being the best performer in the hotel industry in Guangzhou City in both the room rates and occupancy in 2008 due to its prominent location, it is expected that the property continues to contribute stable and promising profits to the Group.

Investment and Sale of Completed Properties

Completed in late 2007, Skyfame Tower, an office tower annexed to the hotel tower where the Westin Guangzhou situates, adds unsold above-the-ground area of approximately 32,000 sq. m. for offices and 9,000 sq. m. for commercial podium to the Group's property portfolio available for sale or leasing. The office tower is currently approximately 78% tenanted with mostly multinational corporations with tenancies at an average monthly rental of RMB164 per sq m and with common lease period of 3 years. The Group also receives stable rental income from the leasing of approximately 20,000 sq. m. commercial podium at Tianyu Garden Phase 2, which is located adjacent to Skyfame Tower. The property is now 63% occupied, tenanted with renowned corporations and the US consulate with lease periods ranging from 1 to 10 years.

Properties Held for / under Development

Guiyang Project
The Group acquired the land interest in January 2008, through a subsidiary of which the Group holds a 55% stake, in a public tender which is being developed into a residential development in the edge of the centre district of Guiyang, the provincial capital of Guizhou Province. The development, consisting of high-end residential apartments of a total GFA of approximately 480,000 sq. m. and full range of one-stop comprehensive community facilities, offers beautiful hill view and natural beauty near the municipal forest park and reservoir. The first phase of the development for GFA of approximately 90,000 sq. m. has been put onto the market in the second quarter of 2009. Pre-marketing activities for pre-sale recently launched receive positive market feedbacks.

Zhoutouzui Project
The management has obtained during the year the approval from the Planning Authority in Guangzhou on the revised parameters of the development based on the new delineation of site boundary of the land. The Group is going through administrative procedures in connection with the transfer of the land use right certificate to the project company whilst at the same time in preparatory procedures for other permits leading to the commencement of construction that is planned to take place in late 2009. The project, a high-rise riverfront luxury residential development in the centre district of Guangzhou City, with a GFA of approximately 212,000 sq. m., will become the Group's leading project in the coming years.

Tianhe Project
The project is a mixed development of office and serviced apartments with a GFA of approximately 84,000 sq. m. situated in the business hub at Tianhe, Guangzhou. With the intention to increase liquidity resources for working capital and satisfy the commitments to repay the Term Loan of HK$220 million and payable to the noteholders if required. The Group is currently in close negotiations with two interested parties about the disposal of certain equity interest in Yaubond Limited ("the Tianhe Disposal").

Going Concern

Background
The Group is exposed to two non-compliances with the terms in a trust deed entered into between the convertible note holders and the Company caused by a subsidiary not yet been able to obtain the land use right certificate and other permits in respect of the Zhoutouzui Project by 31 March 2009, and a loan agreement entered into between the lenders and a subsidiary of the Company for the Term Loan which was already due to be repaid on 29 January 2009.

The Company has reached an agreement with the convertible noteholders for an extension to meet with the timeline to 31 May 2009 in obtaining the title deeds and permits in relation to the Zhoutouzui project, failing which, the noteholders are entitled to an early redemption of the Notes of US$75 million in principal and accrued interests (the "Automatic Redemption").

The lenders of the Term Loan and convertible noteholders have given consents to certain standstill arrangements to refrain from taking legal actions against the Company and its subsidiaries before the expiry of the standstill periods subject to respectively the completion of the Tianhe Disposal and the reaching of some restructured terms of the Notes which, the directors expect, will lead to relaxation of certain conditions on the timelines of redemption terms and conditions of the Notes on or before 31 May 2009. On the date of this announcement, the Company is in negotiations with the convertible noteholders about the restructuring of the Notes and no concrete terms have been reached. The Tianhe Disposal is in documentation stage and yet pending completion.

Key assumptions of the cashflow projection

The financial statements are prepared using the going concern basis, a fundamental accounting concept adopted in the presentation of the financial statements. The directors considered carefully that the business of the Group is a going concern after having considered the assumptions and qualifications, listed as follows, that have material effects on the projections covering the next eighteen months since the balance sheet date:

(1) Major aspects of the economic environment that may affect significantly the accuracy of the projections, and their effects on those key performance parameters, i.e. the occupancy and room rates of the hotel industry, sale prices and rent rates for offices in Guangzhou and residential units in Guiyang that are being pre-sold.

(2) Outflow of cash cover all known liabilities and commitments at the balance sheet date and those future commitments based on the business plans prepared in the best estimates of the management in the light of the development progress of its projects. The operating cash inflows from the hotel and leasing operations can sufficiently support the routine running costs of the Group, project loan interests and amortization of loans in accordance with the existing relevant loan documents entered into with commercial banks.

(3) New banking facilities for additional working capital are made available to the Group in the appropriate timing to keep pace with its work progress in the Zhoutouzui and Guiyang Projects. Reasonable assumptions have also been made that the Group can provide acceptable collaterals to the lenders for banking facilities that are sufficient to meet the working capital requirement of the Group under the prevailing market situation.

(4) To test the possible impacts of cash positions brought about by key risk factors, sensitivity analysis were conducted to highlight any shortfalls in cash caused by possible fluctuations in sales prices, rent rates for office and retail properties, daily room rates and occupancy rates for hotel, interest rates and adverse adjustments in property value that may lead to breaches of loan agreements in financial covenants on leverage level.

(5) Assets can be realized to provide for sufficient funding to remedy the potential claims from the lenders of the Term Loan and the Automatic Redemption, should there be no restructuring plan be reached with the noteholders. The Tianhe Disposal can be completed on schedule in late May 2009 when the failure to repay the Term Loan will be then remedied and the Automatic Redemption also be partially satisfied. Taking in the prevailing market circumstances and the responses of the noteholders, the directors have reasonable beliefs that the debt rescheduling plan can be worked out with revised terms to relax the terms and conditions of the Notes in the interest of the Company and the proposed asset realization plan be crystallized hence avoiding any potential legal claim against the Company.

The directors have considered the results of the review procedures they have taken. They have a reasonable expectation that the Group will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.

Outlook

In the midst of the financial crisis spread out last year, the global economy has not been bottomed out and shows no sign of turning up. In the gloomy winter when recovery is yet to be expected, the property market in the PRC is in downturn, both in prices and trade volumes. The management anticipated some further setbacks in the mainland market in a short run, whilst in the longer run, the strong basic demand for domestic housing will still be a key driver to push for a quick recovery in the dawn. Whilst maintaining a positive attitude towards the prospect, the Group remains conservative in its development plans and will closely manage its existing projects to keep a progressive pace in the challenging and dynamic environment.

LIQUIDITY AND FINANCIAL RESOURCES

Capital Structure and Liquidity

To provide for financing in the acquisitions of development projects in 2007, the Company raised funds by an issue of US$200 million Notes to several financial institutions. The Notes, bearing a coupon interest rate of 4% per annum and maturing at an annualized yield of 15% in 2013, are convertible for ordinary shares of the Company at a reset conversion price of HK$1 per share. The principal value of the Notes outstanding at the balance sheet date was approximately HK$1,500 million (US$192 million). As a reflection of the drop in share prices of the Company in the year, the financial derivative embedded in the Notes was revalued at HK$93 million and the Notes liabilities were amortised at carrying cost of HK$306 million at the balance sheet date. In addition to the Notes, the Group is indebted to two financial institutions for HK$220 million of the Term Loan for financing the acquisition of a 51% interest in the Tianhe Project in 2007.

At the balance sheet date, the Group's total liabilities, consisting mainly of the Notes, mortgage loans from commercial banks, the Term Loan, liabilities associated with assets classified as held for sale, advance from a minority shareholder of a subsidiary, deferred tax liabilities and development costs payable, amounted to HK$2,714 million (2007: HK$3,260 million). The decrease as compared with the previous year was due to the decline in fair value of the Notes. Notwithstanding this and other than an additional mortgage loan of RMB100 million from a commercial bank in the PRC, there has not been material change in borrowing since last year.

Led by the financial crisis, there had been unexpected drastic changes in the fundamentals in the global capital markets which freeze the liquidity in the markets. On requests for early redemption of the Notes raised by certain noteholders and considering the possible discount on redemption enjoyed by early redemption, the management has been in discussions with the noteholders about debt restructuring plans to facilitate early redemption of the Notes, partially or in full, that may involve realization of certain assets of the Group. On the date of this announcement, except for the negotiation about the sale of the Tianhe Project, no other concrete plans of asset realization have come up nor has there been any redemption of the Notes. Had there been an agreement reached amongst the noteholders for, assuming, full redemption at the outstanding principal value of the Notes on the balance sheet date, the financial derivatives embedded in the Notes together with its liability component will be stated as the principal value of HK$1,500 million (US$192 million) and thus the Group's total liabilities will be accordingly restated at HK$3,814 million.

The gearing ratios, based on the net debt (represented by bank and other borrowings, the Notes and financial derivative liabilities, the Term Loan and loan from minority shareholder net of cash and bank balances) to the equity attributable to equity holders plus net debt at the balance sheet dates of the year 2008 and 2007 are 44% and 59% respectively. The reduced gearing ratio is explained by the devaluation in the fair value of the financial derivative liabilities. Assuming a restatement of the note payable to the principal value in the light of an outcome of the discussion with the noteholders on a debt rescheduling plan, the gearing ratio at balance sheet date will become 55%. To improve the potential surged gearing, the Group has been working on feasible plans to realize assets to reduce the gearing level.

The acquisition of the Guiyang Project has utilized some US$30 million cash in the account escrowed by the noteholders, cash balance of the Group decreased but due to the reclassification from non-current assets and non-current liabilities attributable to Tianhe Project, which is determined to be disposed of, to current assets and liabilities, as a result, the current ratio was slightly improved to 3.1 (31 December 2007: 3.0). Current assets and current liabilities of the Group were HK$2,043 million and HK$661 million respectively on 31 December 2008.

Borrowings and Pledge of Assets

Cash in accounts totaling HK$68 million (2007: HK$359 million) was restricted for the payment of interests to noteholders and lenders of the Term Loan. Apart from the escrowed money, shares of certain intermediate holding companies of the property developing subsidiaries of the Group were charged in favor of a security trustee acting for the noteholders and the lenders of the Term Loan. To secure for banking facilities in the total of RMB1,011 million granted to some operating subsidiaries for working capital by two commercial banks in the mainland China, mortgages of property interests in The Westin Guangzhou, Skyfame Tower and Tianyu Garden Phase 2 were made in favour of the banks. On 31 December 2008, other than the Notes, bank and other borrowings in an aggregate amount of HK$1,323 million (2007: HK$1,183 million) were outstanding of which HK$280 million (2007: HK$243 million), including the Term Loan, are due within one year.

FOREIGN CURRENCY MANAGEMENT

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in Renminbi ("RMB"), the functional currency of the Company's principal subsidiaries. At the same time, certain financing activities of the Group are denominated in other currencies, such as the Notes in US dollars and the Term Loan in HK dollars.

Due to the appreciation of RMB against HK and US dollars during the year, a foreign exchange reserve surplus of HK$187 million arises from the consolidation of the assets and liabilities of the PRC subsidiaries. The surplus adds to the equity attributable to shareholders of the Company. Since both of the US and HK dollars are pegged whilst RMB moves within narrow extents with the US and HK dollars, the Group foresees no significant foreign currency exposure in the near future. Further, the Group foresees rises in the exchange rates of RMB against HK dollars in the foreseeable future, such fluctuations will not have unfavourable effect on the financial position of the Group. For these reasons, the Group does not hedge against its foreign currency risk. However, any permanent or significant changes in the exchange rates in RMB for HK and US dollars and in the peg system of US dollars with HK dollars may have possible impact on the Group's results and financial position.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2008.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting year covered by the 2008 financial statements, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules except for code provision A2.1, where the roles of chairman and chief executive officer of the Company is not separated as required but is currently performed by the same individual.

Due to the relatively small size of the existing management team, both the roles of the chairman and chief executive officer of the Company are currently taken up by Mr. Yu Pan. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the corporation.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code of the Listing Rules. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the year under review.

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

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

AUDIT COMMITTEE

The principal duties of the Audit Committee include the review of the Company's financial reporting procedure, internal controls and results of the Group. The annual Financial Statements have been reviewed by the Audit Committee.

PUBLICATION OF THE FINAL RESULTS AND ANNUAL REPORT

This results announcement is published on the websites of the Company (www.sfr59.com) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The full 2008 annual report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

By order of the Board
Skyfame Realty (Holdings) Limited
Yu Pan
Chairman

Hong Kong, 17 April 2009

As at the date of this announcement, the Board comprises three Executive Directors, namely Mr. Yu Pan (Chairman), Mr. Lau Yat Tung, Derrick (Deputy Chairman) and Mr. Wong Lok; one Non-executive Director, namely Jerry Wu; and three Independent Non-executive Directors, namely Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.