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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Skyfame Realty (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2008, together with comparative figures for the corresponding period of 2007. The unaudited consolidated interim results have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	**Six months ended 30 June 2008** *HK$'000* **(Unaudited)**	2007 *HK$'000* (Unaudited and restated) *(Note 2)*
Revenue	*4*	**148,958**	20,160
Cost of sales and services		**(62,297)**	(11,433)
Gross profit		**86,661**	8,727
Other income		**708**	922
Sales and marketing expenses		**(10,124)**	(1,036)
Administrative expenses		**(89,244)**	(39,437)
Loss from operations	*5*	**(11,999)**	(30,824)
Fair value changes in investment properties		**–**	10,150
Fair value changes in financial derivative liabilities			
– convertible notes		**514,691**	(28,101)
– convertible preference shares		**–**	(498)
Share of loss of associate, net of tax		**–**	(26)
Finance costs	*6*	**(81,709)**	(63,906)
Finance income	*6*	**2,189**	5,650
Profit (loss) before income tax		**423,172**	(107,555)
Income tax credit (expense)	*7*	**2,581**	(6,239)
Profit (loss) for the period		**425,753**	(113,794)
Attributable to:			
– Equity holders of the Company		**426,094**	(113,794)
– Minority interests		**(341)**	–
		425,753	(113,794)
Dividends	*8*	**Nil**	Nil
Earnings (loss) per share	9		
– basic		**HK28.85 cents**	(HK10.43 cents)
– diluted		**HK28.20 cents**	N/A

* *for identification purpose only*

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	30 June 2008 HK$'000 (Unaudited)	31 December 2007 HK$'000 (Audited)
Non-current assets		
Property, plant and equipment	**1,085,912**	1,017,087
Prepaid lease payments – non-current portion	**857,245**	223,808
Investment properties	**521,931**	492,325
Properties held for development	**1,717,907**	1,529,339
Goodwill	**135,119**	118,088
Deposits paid for acquisition of land use right	**–**	32,408
	4,318,114	3,413,055
Current assets		
Properties held for sale	**659,236**	603,427
Prepaid lease payments – current portion	**480,225**	445,191
Inventories	**28,167**	31,790
Trade and other receivables	**41,864**	31,016
Restricted and pledged deposits	**97,321**	358,711
Cash and cash equivalents	**69,807**	63,338
	1,376,620	1,533,473
Current liabilities		
Trade and other payables	**385,615**	241,904
Bank and other borrowings – current portion	**396,015**	242,790
Income tax payable	**23,283**	24,161
	804,913	508,855
Net current assets	**571,707**	1,024,618
Total assets less current liabilities	**4,889,821**	4,437,673
Non-current liabilities		
Other payable	**63,573**	63,573
Bank and other borrowings – non-current portion	**934,255**	940,339
Convertible notes	**250,791**	211,946
Financial derivative liabilities	**555,395**	1,081,572
Loan from minority shareholder of a subsidiary	**281,664**	–
Deferred tax liabilities	**478,747**	453,561
	2,564,425	2,750,991
Net assets	**2,325,396**	1,686,682
Capital and reserves		
Share capital	**14,777**	14,659
Reserves	**2,305,853**	1,672,023
Equity attributable to equity holders of the Company	**2,320,630**	1,686,682
Minority interests	**4,766**	–
Total equity	**2,325,396**	1,686,682

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements for the six months ended 30 June 2008 ("Interim 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 and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. BUSINESS COMBINATION UNDER COMMON CONTROL

During the year ended 31 December 2007, the Group and Mr. Yu Pan, the controlling shareholder of the Company, entered into a transaction that is regarded as common control combination, the details of which have been set out in note 2 "Business combination under common control" to the Group's annual consolidated financial statements for the year ended 31 December 2007. Accordingly, the Interim Financial Statements of the Group have been prepared using the principle of Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the transfer of the controlling interests in Long World Trading Limited ("Long World") had been completed as at 1 January 2007. As a results, the Group's consolidated financial statements for the six months ended 30 June 2007 have been restated.

The effects of the combination of Long World on the results of the Group for the six months ended 30 June 2007 are summarised below:

	Six months ended 30 June 2007 *HK$'000* (Unaudited and previously stated)	Combination of Long World *HK$'000* (Unaudited)	Combination adjustments *HK$'000* (Unaudited)	Six months ended 30 June 2007 *HK$'000* (Unaudited and restated)
Revenue	11,510	8,901	(251)	20,160
Cost of sales and services	(8,683)	(2,750)		(11,433)
Gross profit	2,827	6,151		8,727
Other income	874	660	(612)	922
Sales and marketing expenses	(1,021)	(15)		(1,036)
Administrative expenses	(25,418)	(14,270)	251	(39,437)
Loss from operations	(22,738)	(7,474)		(30,824)
Fair value changes in investment properties	–	10,150		10,150
Fair value changes in financial derivative liabilities				
– convertible notes	(28,101)	–		(28,101)
– convertible preference shares	(498)	–		(498)
Share of loss of associate, net of tax	(26)	–		(26)
Finance costs	(60,205)	(3,701)		(63,906)
Finance income	5,038	–	612	5,650
Loss before income tax expense	(106,530)	(1,025)		(107,555)
Income tax expense	(663)	(5,576)		(6,239)
Loss for the period attributable to equity holders of the Company	(107,193)	(6,601)		(113,794)

3. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007.

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2007.

In the current period, the Group has applied, for the first time, certain new interpretations to Hong Kong Financial Reporting Standards issued by the HKICPA, which are effective for the Group's financial period beginning on 1 January 2008. The adoption of these new interpretations has no material effect on how the results and financial position of the Group for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

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

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

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

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

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

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

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 HKAS 27 (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 in compliance with HK(IFRIC) – Interpretation 15. Except for these, the Directors anticipate that the application of the other new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

4. REVENUE AND SEGMENT INFORMATION

For management purposes, the Group is currently organised into four operating divisions – property development, property investment, hotel operation, and property development project management ("project management"). These divisions form the basis on which the Group reports its primary segment information.

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

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited and restated)
Sale of properties	**–**	505
Rental income	**23,674**	8,145
Hotel operation	**125,284**	9,734
Property development project management and interior decoration service fees	**–**	1,776
	148,958	20,160

The Group's unaudited revenue and results by business segment for the six months ended 30 June 2008, together with the comparative figures for the corresponding period of 2007, are presented below:

	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Project management HK$'000	Unallocated HK$'000	Total HK$'000
Results for the six months ended 30 June 2008 (Unaudited)						
Segment revenue	**12,245**	**11,429**	**125,284**	**–**	**–**	**148,958**
Segment results	**(7,376)**	**6,791**	**1,787**	**511**		**1,713**
Unallocated operating expenses						**(13,712)**
Loss from operations						**(11,999)**
Fair value changes in financial derivative liabilities						
– convertible notes						**514,691**
Finance costs						**(81,709)**
Finance income						**2,189**
Profit before income tax						**423,172**
Income tax credit						**2,581**
Profit for the period						**425,753**
Other segment information						
Capital expenditure	**718,352**	**–**	**40,278**	**–**	**12,624**	**771,254**
Depreciation	**69**	**5**	**34,869**	**–**	**2,005**	**36,948**
Amortisation	**10,353**	**–**	**2,992**	**–**	**626**	**13,971**

	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Project management HK$'000	Eliminations HK$'000	Unallocated HK$'000	Total HK$'000
Results for the six months ended 30 June 2007 (Unaudited and restated)							
External revenue	505	8,145	9,734	1,776	–	–	20,160
Inter-segment revenue	–	251	–	–	(251)	–	–
Segment revenue	505	8,396	9,734	1,776	(251)	–	20,160
Segment results	(2,546)	6,585	(9,203)	(191)			(5,355)
Unallocated operating expenses							(25,469)
Loss from operations							(30,824)
Fair value changes in investment properties	–	10,150	–	–			10,150
Fair value changes in financial derivative liabilities							
– convertible notes							(28,101)
– convertible preference shares							(498)
Share of loss of associate, net of tax	(26)	–	–	–			(26)
Finance costs							(63,906)
Finance income							5,650
Loss before income tax expense							(107,555)
Income tax expense							(6,239)
Loss for the period							(113,794)
Other segment information							
Capital expenditure	2,026	–	148,631	2	–	49	150,708
Depreciation	134	19	4,561	10	–	392	5,116
Amortisation	852	–	670	–	–	–	1,522

5. LOSS FROM OPERATIONS

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

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited and restated)
Cost of materials sold	**12,549**	1,901
Cost of properties sold	**–**	689
Prepaid lease payments recognised as cost of sales	**–**	172
Staff costs, including directors' remuneration:		
– Basic salaries and other benefits	**32,941**	12,443
– Bonus	**3,005**	859
– Pension scheme contributions	**1,272**	456
– Share-based payment expenses	**925**	1,920
Total staff costs, including directors' remuneration	**38,143**	15,678
Less: Amount capitalised as properties held for development	**(2,311)**	(882)
	35,832	14,796
Share-based payment expenses		
– staff and directors	**925**	1,920
– non-employees	**–**	3,042
	925	4,962
Auditors' remuneration	**780**	585
Depreciation of property, plant and equipment	**36,948**	5,107
Amortisation of prepaid lease payments	**13,971**	1,522
Less: Amount capitalised as properties held for development	**(3,649)**	(852)
Total amortisation charged to consolidated income statement	**10,322**	670
Minimum lease payments under operating lease		
– subleasing of properties recognised as cost of sales	**1,516**	1,377
– office premises	**845**	653
– staff quarters	**1,354**	–
	3,715	2,030
Exchange loss (gain), net	**672**	(625)
Waiver of amount due from a director arising from business combination under common control	**–**	12,853

6. FINANCE COSTS AND INCOME

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited and restated)
Finance costs:		
Interest on convertible notes		
– wholly repayable within five years	**71,027**	–
– wholly repayable after five years	**–**	20,095
Interest on bank and other borrowings		
– wholly repayable within five years	**15,445**	1,265
– wholly repayable after five years	**37,778**	10,748
Imputed interest on loan from minority shareholder of a subsidiary	**–**	6,020
	124,250	38,128
Less: Amount capitalised as properties held for development		
Interest on convertible notes		
– wholly repayable within five years	**(29,831)**	–
– wholly repayable after five years	**–**	(14,566)
Interest on bank and other borrowings		
– wholly repayable within five years	**(14,265)**	–
– wholly repayable after five years	**–**	(4,653)
Imputed interest on loan from minority shareholder of a subsidiary	**–**	(6,020)
	(44,096)	(25,239)
	80,154	12,889
Issue cost on derivative components of convertible notes	**–**	50,975
Other borrowing costs	**6,335**	42
Less: Amount capitalised as properties held for development	**(4,780)**	–
	1,555	42
Finance costs charged to consolidated income statement	**81,709**	63,906
Finance income:		
Bank interest income	**1,881**	3,894
Other interest income	**308**	1,756
	2,189	5,650

7. INCOME TAX CREDIT (EXPENSE)

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited and restated)
Current tax		
Current tax – Hong Kong profits tax		
– under provision in respect of prior years	**–**	(620)
Current tax – overseas corporate tax		
– current year	–	(43)
– over provision in respect of prior years	**541**	–
	541	(663)
Deferred tax		
– current year	**2,040**	(5,576)
Total income tax credit (expense)	**2,581**	(6,239)

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2008 as the Group has no estimated assessable profits in respect of operation in Hong Kong. Hong Kong profits tax is calculated at 17.5% on the estimated assessable profits for the six months ended 30 June 2007.

Enterprise income tax ("EIT") arising from The People's Republic of China (the "PRC") is calculated at 25% (six months ended 30 June 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 period.

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.

8. DIVIDENDS

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2008 (six months ended 30 June 2007: HK$Nil).

9. 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 (loss) attributable to ordinary equity holders of the Company and the following data:

	Six months ended 30 June	
	2008	2007
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited and restated)
Earnings (loss) for the purpose of calculation of basic and diluted earnings (loss) per share	**426,094**	(113,794)

	Number of shares	
	'000	*'000*
	(Unaudited)	(Unaudited and restated)
Weighted average number of ordinary shares for the purpose of calculation of basic earnings (loss) per share	**1,476,890**	1,091,261
Effect of dilutive potential ordinary share:		
– Bonus warrants	**33,505**	
– Share options	**524**	
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	**1,510,919**	N/A

For the six months ended 30 June 2007, no diluted loss per share is presented as the effect was anti-dilutive.

10. CAPITAL COMMITMENTS

	30 June 2008 *HK$'000* **(Unaudited)**	31 December 2007 *HK$'000* (Audited)
Capital expenditure contracted for but not provided for in the Interim Financial Statements in respect of		
– Property construction and development costs	**992,428**	915,973
– Acquisition of land use right and payment for demolition costs	**–**	286,296
	992,428	1,202,269

11. EVENT AFTER THE BALANCE SHEET DATE

Reset of Conversion Price of US$200 Million 4% Secured Convertible Notes Due 2013 ("Notes")

Pursuant to the terms and conditions of the Notes, the initial conversion price of HK$1.35 (the "Conversion Price") shall be adjusted downwards on the date falling 6 months from the closing date (i.e. 4 May 2007) and every 3 months thereafter (each a "Reset Date") to the arithmetic average of the volume weighted average price of an ordinary share of the Company of HK$0.01 each ("Share") for each day during the period of 40 consecutive trading days immediately prior to the Reset Date (the "Reset Reference Price") if the applicable Reset Reference Price is less than the Conversion Price in effect on the relevant Reset Date, provided that the adjusted Conversion Price shall not be less than HK$1.00 (the "Minimum Reset Reference Price").

The arithmetic average of the volume weighted average price of a Share for each day during the period of 40 consecutive trading days immediately prior to the forthcoming Reset Date which fell on 4 August 2008 was HK$0.84, which was lower than the Conversion Price of HK$1.35 and the Minimum Reset Reference Price. As a result, the Conversion Price was adjusted downwards to HK$1.00 with effect from 4 August 2008. Details of the reset of Conversion Price of the Notes were set out in the announcement dated 1 August 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Results

During the six months ended 30 June 2008, the Group recorded a total turnover of HK$149.0 million, a 7.4 times of that in the last corresponding period. The increase in turnover was contributed by revenue from The Westin Guangzhou's operation for the first full six-month since its grand opening in October, 2007, and the gradually improved occupancy of offices at the newly built Skyfame Tower.

During the period under review, the Group's revenue comprises primarily the revenue from hotel operation and the rental income from leasing of investment properties and developed properties held for sale, namely the commercial podium of Tianyu Garden Phase 2 and Skyfame Tower.

The decrease in operating loss of the Group is reflected by the hotel operation as it is becoming stabilized at improved operating margins in its first full six-month operation. Overall contribution margin was 58%, representing a big leap as compared with the 43% in the last year. Because of the unique location, the hotel's occupancy and room rates have been increasing since its opening, making it the market leader in Guangzhou. The enhancing contribution from room revenue and higher efficiency in cost control are the key factors that lead to the larger contributions by the hotel to the Group.

Operating expenses for the hotel operation increased in line with its increasing business activities. Sales and marketing expenses of the Group amounted to HK$10.1 million that have increased by over 9.8 times of last period, specifically in marketing and promotion of the new hotel to the customers worldwide. Staff costs, the biggest item constituting 20% of administrative expenses, amounting to HK$17.8 million, have increased by 49% in abreast of the expanded staff forces engaged in the daily operation of the hotel and project development when the Group completed the acquisitions of projects in last year.

The operating loss for the period was narrowed down to HK$12.0 million (six months ended 30 June 2007: HK$30.8 million). Cash contributed from the hotel operation before depreciation of building costs and other fixed assets, and amortisation of lease premium in aggregate of HK$37.9 million was HK$39.6 million (six months ended 30 June 2007: outflow of HK$4.0 million), representing a eleven times increase from the corresponding period in last year. With the leasing of office areas of gross floor area ("GFA") 41,000 sq. m. in the newly completed property, Skyfame Tower, approaching full occupancy in the light of the negotiation progress with keen tenants and the coming peak season of the hotel industry in Guangzhou in the second half of the year, contributions from these two business segments will be promising.

Finance costs, consisting of effective interests amortised on convertible notes, interests to banks, investment funds and a financial institution on borrowings and direct expenses, of HK$81.7 million (six months ended 30 June 2007: HK$63.9 million) were compensated by a gain of HK$514.7 million (six months ended 30 June 2007: loss of HK$28.1 million) arising from the fair value adjustment of financial derivative liabilities in relation to the convertible notes. The gain is a reflection of a corresponding decrease in the fair value of the financial derivative liabilities which is induced by the drop in prices of the Company's share against which the revaluation was benchmarked. The outstanding face value of the convertible notes is US$192 million (equivalent to approximately HK$1,499.9 million) whilst the carrying value of the convertible notes, in aggregate of the convertible note and financial derivative liabilities, is HK$806.2 million as at 30 June 2008.

Besides hotel operation, the Group also undertakes property development and property investment businesses.

Property Development Business

Zhoutouzui Project

The Group's existing development projects carried forward from the last year are Zhoutouzui and Tianhe Project. For Zhoutouzui Project, the management has obtained the approval from the Planning Authority in Guangzhou on the revised parameters of the development based on the delineation of site boundary of the land. The Group is currently working on the administrative procedures in connection with the issue of the land use right certificate and other permits. Thereafter, this high-rise riverfront luxury residential project, with a GFA of approximately 212,000 sq. m., will proceed into construction in next year.

Tianhe Project

In consideration of the recent changes in market conditions, the management has varied its strategic plan and discuss with interested parties about admitting joint venture partner or disposal of the entire equity interest in the project. As no terms of disposal have been reached, no agreement has been entered into. Alternatively, the Group will continue its development plan of the site. Under the current development scheme approved by the authority, the project will be a mixed development of office, hotel and serviced apartments with a GFA of approximately 84,000 sq. m. situated in the business hub and will become a new landmark at the Tianhe District.

Guiyang Project

The Group successfully acquired in January 2008, through a subsidiary (of which the Group holds 55% stake) in a public tender, a site in Guiyang, the provincial capital of Guizhou Province. The management reckons that Guiyang is a market with potential and the project offers a rare opportunity for high-end buyers at the marketplace. The development consists of luxury apartments of a total GFA of approximately 480,000 sq. m. on the edge of the central district of Guiyang. The first phase of residential units of a total of GFA of approximately 90,000 sq. m. will be put to the market in the first half of 2009. This will be the Group's signature project in the city which will definitely arouse market attention.

Skyfame Tower

This is the first completed property that the Group now actively launches for sale. The Group has entered into sales contracts with buyers of the Skyfame Tower covering 22% of the total office spaces. When the contracts are completed in the second half of the year, sales revenue of RMB232.5 million will be recorded in a new income stream to the Group. Simultaneously, office spaces are leased for rental income and are at the date of this report over 70% tenanted by top-tier tenants including consulates, airlines and renowned multinational companies.

Property Investment Business

The Group also received stable rental income from its leasing of approximately 20,000 sq. m. commercial podium at Tianyu Garden Phase 2, located next to the Skyfame Tower. The property is now 66% occupied, tenanted with renowned corporations and a consulate.

Outlook

The austerity measures imposed by the central government and the economic slowdown or possible recession in the USA has frozen market sentiment and induced uncertainty to the prospect of the property markets in the PRC. We anticipated some cooling-offs continue in the mainland market in the short run in view of the cloudy global markets. In a longer run, the fast growing economic performance and rapid urbanisation in the mainland market adds fuel to the growth engine in the property market. After the normal adjustments resulting from the austerity measures, demand for housing and commercial properties is expected to be strong, in particular in the high-end sectors. The Group will remain its conservative strategies in its business development and will closely monitor the projects to keep in good pace with the ever-changing market situation.

Liquidity and Financial Resources

Capital structure and liquidity

In the year 2007, the Group had completed a number of major acquisitions of development projects at purchase considerations satisfied by the issue of the US$200 million convertible notes. The notes, issued to several financial institutions, bear a coupon interest rate of 4% per annum and mature at an annualised yield of 15% in 2013, are convertible for ordinary shares of the Company at an initial conversion price of HK$1.35 per share (now reset to HK$1 per share). The principal value of the notes outstanding at the balance sheet date was approximately HK$1,499.9 million (US$192 million). As a reflection of the downturn of share prices of the Company in the recent months, the financial derivative liabilities embedded in the notes were revalued at HK$555.4 million and the convertible notes liabilities were amortised at carrying cost of HK$250.8 million at the balance sheet date. Apart from the issue of the notes and certain shares at corporate level to finance the acquisitions in 2007, the acquisition of 51% interest in Tianhe Project in 2007 was financed by borrowing of HK$220.0 million from investment funds and a financial institution.

At the balance sheet date, the Group's total liabilities, consisting mainly of convertible notes and financial derivative liabilities, commercial loans, a short-term loan from a lender for the demolition cost of Guiyang Project, loan from minority shareholder of a subsidiary, deferred tax liabilities and development costs payable, amounted to HK$3,369.3 million.

The gearing ratios, based on the net debt (represented by bank and other borrowings, convertible notes and financial derivative liabilities, and loan from minority shareholder less cash and bank balances) to equity attributable to equity holders plus net debt, at the balance sheet dates of 30 June 2008 and 31 December 2007 were relatively steady, of 51% and 59% respectively. There has not been material increase in borrowing since 31 December 2007 as the projects have not commenced construction. Though it will be expected that gearing level will increase when project constructions are to be financed mainly by debts, the management believes the borrowing costs will be outweighed by the benefits from earnings from projects and avoidance of dilution of equity interest, thus enhancing return to the shareholders as the residual interest holders.

As the acquisition of the stake interest in Guiyang Project was completed and financed in early 2008 by cash released from an account escrowed by the convertible noteholders for project acquisition, cash balance of the Group decreased and, as a result, the current ratio dropped to 1.7 (31 December 2007: 3.0). Current assets and current liabilities of the Group were HK$1,376.6 million and HK$804.9 million respectively on 30 June 2008.

Borrowings and pledge of assets

Cash in accounts totaling HK$97.3 million (31 December 2007: HK$358.7 million) was restricted for the payment of interests to convertible noteholders in an outstanding principal amount of US$192.0 million, several investment funds and a financial institution for a borrowing of HK$220.0 million. In addition, 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 convertible noteholders, several investment funds and a financial institution. To secure for banking facilities in the total of RMB951.0 million granted to some operating subsidiaries for working capital by two commercial banks in mainland China, mortgages of ownership interests in The Westin Guangzhou, Skyfame Tower and Tianyu Garden Phase 2 were made in favour of the banks. On 30 June 2008, bank and other borrowings, other than the convertible notes, in the aggregate of HK$1,330.3 million (31 December 2007: HK$1,183.1 million) were outstanding of which HK$396.0 million (31 December 2007: HK$242.8 million) 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 convertible notes, are denominated in US dollars and the loan from several investment funds and a financial institution are denominated in HK dollars.

Due to the appreciation of RMB against HK and US dollars during the period, there arises a foreign exchange reserve surplus of HK$192.9 million from the consolidation of the assets and liabilities of 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 coming period, 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 changes in the peg system of US dollars with HK dollars may have possible impact on the Group's results and financial position.

Material Acquisition During the Period

On 15 January, 2008, the Group had formed a subsidiary with a third party, 貴州協輝房地產開發有限公司(Guizhou Xiehui Property Development Company Limited), in which 55% equity interest was held by the Group, to acquire a piece of land located in Guiyang City, Guizhou Province, the PRC through an open tender on 11 January 2008. The total consideration of the land is approximately HK$627.6 million (RMB552.1 million). The contribution into the subsidiary for the acquisition was financed by cash of US$30 million released from an escrow account and the balance of approximately HK$111.1 million (approximately RMB97.7 million) for a short term advance from a third party.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2008.

CORPORATE GOVERNANCE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the Interim Finance Statements, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities ("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 small size of the team, both the roles of the chairman and chief executive officer of the Company are played by Mr. Yu Pan. The Board considers the currently simple but efficient management team serves sufficiently enough the need of the Group. 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 management team to ensure a proper balance of power and authority within the Company.

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 period under review.

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

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

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 Interim Financial Statements have been reviewed by the Audit Committee.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM 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 interim 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
Yu Pan
Chairman

Hong Kong, 22 September 2008

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