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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 2010

UNAUDITED INTERIM RESULTS

The board of Directors (the "Board") of Skyfame Realty (Holdings) Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010, together with comparative figures for the corresponding period of 2009. The unaudited consolidated interim results have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**8,645**	142,077
Cost of sales and services		**(1,458)**	(54,906)
Gross profit		**7,187**	87,171
Other income		**8,653**	691
Sales and marketing expenses		**(2,865)**	(15,682)
Administrative expenses		**(25,540)**	(85,659)
Fair value changes in financial derivative liabilities in relation to convertible notes		**–**	(263,951)
Reduction in debts as compromised with creditors	*4*	**936,156**	–
Share of loss of associate, net of tax		**(8,537)**	–
Finance costs	*5*	**(8,168)**	(120,950)
Finance income		**1,372**	316

		Six months ended 30 June	
		2010	2009
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Profit (loss) before income tax	*6*	**908,258**	(398,064)
Income tax credit	*7*	**–**	1,788
PROFIT (LOSS) FOR THE PERIOD		**908,258**	(396,276)
Other comprehensive income:			
Exchange differences arising on consolidation of foreign operations		**23,138**	(365)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**931,396**	(396,641)
Profit (loss) for the period attributable to:			
– Owners of the Company		**910,369**	(391,905)
– Minority interests		**(2,111)**	(4,371)
		908,258	(396,276)
Total comprehensive income for the period attributable to:			
– Owners of the Company		**933,303**	(392,268)
– Minority interests		**(1,907)**	(4,373)
		931,396	(396,641)
Earnings (loss) per share	*9*		
– Basic		**HK61.61 cents**	(HK26.52 cents)
– Diluted		**HK61.61 cents**	(HK26.52 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	**30 June 2010 HK$'000 (Unaudited)**	31 December 2009 HK$'000 (Audited and Restated)
Non-current assets			
Property, plant and equipment		**899**	1,111
Investment properties		**422,033**	416,951
Properties held for development		**1,386,747**	1,563,453
Goodwill		**15,752**	15,562
Interest in an associate		**756,164**	631,094
		2,581,595	2,628,171
Current assets			
Properties under development		**638,849**	326,356
Trade and other receivables	*10*	**31,899**	31,956
Consideration receivable for disposal of a subsidiary		**50,722**	1,213,031
Restricted and pledged deposits		**31,637**	38,547
Cash and cash equivalents		**265,195**	114,719
		1,018,302	1,724,609
Current liabilities			
Trade and other payables	*11*	**490,000**	418,071
Bank and other borrowings – current portion		**268,223**	277,627
Convertible notes		**399,671**	2,057,326
Income tax payable		**29,414**	120,052
		1,187,308	2,873,076
Net current liabilities		**(169,006)**	(1,148,467)
Total assets less current liabilities		**2,412,589**	1,479,704

	Notes	30 June 2010 HK$'000 (Unaudited)	31 December 2009 HK$'000 (Audited and Restated)
Non-current liabilities			
Bank and other borrowings – non-current portion		**238,040**	239,150
Loan from minority shareholder of a subsidiary		**235,370**	234,690
Deferred tax liabilities		**159,324**	157,405
		632,734	631,245
Net assets		**1,779,855**	848,459
Capital and reserves			
Share capital		**14,777**	14,777
Reserves		**1,749,177**	815,874
Equity attributable to owners of the Company		**1,763,954**	830,651
Minority interests		**15,901**	17,808
Total equity		**1,779,855**	848,459

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. BASIS OF PREPARATION

(a) General

These unaudited condensed consolidated financial statements for the six months ended 30 June 2010 (the "Interim Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") 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").

The Interim Financial Statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

(b) Going Concern

After series of negotiations with the holders (the "Noteholders") of the convertible notes (the "Notes" or "convertible note") and the lenders of a term loan of HK$220,000,000 ("Sky Honest Loan") about the settlement of the liabilities due to them which have been defaulted, there have been breakthroughs since 7 June 2010, the Company and certain subsidiaries entered into two agreements respectively with, amongst others, the trustee and security trustee acting on behalf of the Noteholders ("Settlement Agreement") and the facility and security agent acting for the Sky Honest Loan lenders ("Restructuring Agreement"). Pursuant to the two agreements, the indebtedness due to the two groups of creditors are reduced to US$153,600,000 for the Notes and HK$176,000,000 for the Sky Honest Loan if the Group can satisfy the payment obligations on or before 4 October 2010. Settlements beyond then but before 4 January 2011 are subject to surcharges. However, failure to meet with these obligations before 4 January 2011 will render the Settlement Agreement and Restructuring Agreement invalid.

In view of the moratorium, the petitioner for the winding up order made an application for the discharge of the winding up order and subsequently on 9 July 2010, the High Court discharged the winding up order of the Company and dismissed the provisional liquidators who were appointed by the High Court on 6 November 2009.

Pursuant to the two agreements entered with the creditors, securities that have been accelerated by receivers appointed by the creditors by reason of defaults under the trust deed dated 4 May 2007 (the "Trust Deed") and the Sky Honest Loan were restored and the receivers appointed by the Noteholders and Sky Honest Loan lenders were discharged on 23 July 2010. Simultaneously, the boards of directors of the subsidiaries of the Company under receivership are restored to their original positions at the time prior to the acceleration of the Notes and operations of the Group has now resumed normal.

On 26 July 2010, a framework agreement for the disposal of the entire equity interest in a subsidiary engaged in the development of the Tianhe Project was entered into with a third party for a gross sale consideration of RMB1,090,000,000 (equivalent to approximately HK$1,253,450,000) (the "Disposal"). The details of the Disposal are disclosed in note 14 "Events After The End of The Reporting Period".

The series of restructuring programs mentioned in the aforesaid paragraphs indicate that the financial position of the Group is being stabilised. Accordingly the Interim Financial Statements are prepared using the going concern basis, a fundamental accounting concept adopted in the presentation of the Interim Financial Statements. The Directors considered that the business of the Group is a going concern after having considered the assumptions and qualifications that may have material effects on the foreseeable period covering the next twelve months since at the end of the reporting period. Key assumptions of a going concern rest on successful implementation of the Disposal, the fulfillment of all the Group's obligations under the Settlement Agreement and Restructuring Agreement, a stable general economic performance in the PRC and the real estate sector, and additional banking facilities, if required, to finance the construction work in progress and project commencing construction.

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

In the current period, the Group has applied, for the first time, certain new standards, amendments and interpretations to Hong Kong Financial Reporting Standards issued by the HKICPA, which are effective for the Group's financial period beginning on 1 January 2010. HKFRSs comprise Hong Kong Financial Reporting Standards, HKASs and Interpretations. Except for the adoption of HKAS 17 (Amendment) - "Improvements to HKFRSs 2009", the adoption of these new or revised HKFRSs has had no material effects on the results or financial position of the Group for the current or prior accounting periods nor resulted in substantial changes to the Group's accounting policies.

The amendment to HKAS 17 made under "Improvements to HKFRSs 2009", mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met.

As substantially all risks and rewards of all the prepaid lease payments are considered having been transferred to the Group, according to the amended policy, the Group's interests in prepaid lease payment are now accounted for as assets held under finance leases whereas payments for hotel properties and office building for self use are stated at cost less accumulated depreciation and payments for investment properties, properties held for sale and under development are accounted for at fair values or at cost less impairment loss. The amendment has been applied retrospectively to unexpired leases since 1 January 2010 on the basis of information existing at the inception of the leases. On the ground that the hotel properties and office building were disposed of prior to the previous reporting period for the year ended 31 December 2009, there has not been an overall effect on the retained earnings as a result of the adoption of this amendment.

The retrospective effects of the amendment caused to the financial position as at 31 December 2009 are as follows:

	As previously reported	Reclassification	As restated
	HK$'000	*HK$'000*	*HK$'000*
Consolidated Statement of Financial Position as at 31 December 2009			
Prepaid lease payments	629,365	(629,365)	–
Properties held for development	1,061,511	501,942	1,563,453
Properties under development	198,933	127,423	326,356

3. REVENUE AND SEGMENT REPORTING

On adoption of HKFRS 8 "Operating segments" and in a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group is currently organised into three operating divisions – property development, property investment and hotel operation and related ancillary services ("hotel operation").

As management of the Group considers that all consolidated revenue are attributable to the markets in the PRC and consolidated non-current assets are substantially located inside the PRC, no geographical information is presented.

The Group's reportable segments under HKFRS 8 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

The Group's senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments, the expenses directly incurred by those segments and the depreciation or amortisation charges of assets attributable to those segments. Corporate expenses, finance costs and income and any non-operating items which cannot be directly associated with the reportable segments are not allocated to the respective segments.

The measure used for reporting segment results is operating (loss) earning before interest (finance costs and income), income tax, depreciation and amortisation ("adjusted EBITDA"). In addition to information concerning adjusted EBITDA, the management also provides other segment information concerning share of loss of associate (net of tax), depreciation and amortisation and fair value changes in investment properties.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of financial instruments as derivative, cash and bank balances, unallocated bank and other borrowings, convertible notes and taxes.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance in the Interim Financial Statements is set out below:

(a) Segment results, assets and liabilities

	Property development *HK$'000*	Property investment *HK$'000*	Hotel operation *HK$'000*	Total *HK$'000*
Six months ended 30 June 2010 (Unaudited)				
Reportable segment revenue – external, and consolidated revenue	158	8,487	–	8,645
Operating results	(10,077)	5,911	218	(3,948)
Add: Depreciation and amortisation	118	1	–	119
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	(9,959)	5,912	218	(3,829)
Write-back of impairment loss on trade and other receivable	–	41	–	41
Share of loss of associate, net of tax	(8,537)	–	–	(8,537)
Capital expenditure incurred during the period	109,221	–	–	109,221
As at 30 June 2010 (Unaudited)				
Assets				
Reportable segment assets	2,850,093	423,386	28,744	3,302,223
Liabilities				
Reportable segment liabilities	809,751	18,236	18,842	846,829

	Property development HK$'000	Property investment HK$'000	Hotel operation HK$'000	Total HK$'000
Six months ended 30 June 2009 (Unaudited)				
Reportable segment revenue – external, and consolidated revenue	21,798	8,041	112,238	142,077
Operating results	(1,137)	4,966	(2,869)	960
Add: Depreciation and amortisation	5,598	5	39,130	44,733
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	4,461	4,971	36,261	45,693
Capital expenditure incurred during the period	79,394	–	242	79,636
As at 31 December 2009 (Audited and Restated)				
Assets				
Reportable segment assets	3,092,982	417,946	687,425	4,198,353
Liabilities				
Reportable segment liabilities	727,930	18,712	40,926	787,568

(b) Reconciliations of reportable segment results, and assets and liabilities

	Six months ended 30 June 2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Results		
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	**(3,829)**	45,693
Unallocated corporate expenses before depreciation and amortisation	**(8,438)**	(11,447)
	(12,267)	34,246
Depreciation and amortisation		
– Reportable segment	**(119)**	(44,733)
– Unallocated	**(179)**	(2,992)
	(12,565)	(13,479)
Fair value changes in financial derivative liabilities in relation to convertible notes	**–**	(263,951)
Reduction in debts as compromised with creditors	**936,156**	–
Share of loss of associate, net of tax	**(8,537)**	–
Finance costs	**(8,168)**	(120,950)
Finance income	**1,372**	316
Consolidated profit (loss) before income tax	**908,258**	(398,064)
Capital expenditure incurred during the period		
– Reportable segment	**109,221**	79,636
– Unallocated	**–**	10
	109,221	79,646
Assets		
Reportable segment assets	**3,302,223**	4,198,353
Restricted and pledged deposits	**31,637**	38,547
Cash and cash equivalents	**265,195**	114,719
Unallocated corporate assets	**842**	1,161
Consolidated total assets	**3,599,897**	4,352,780
Liabilities		
Reportable segment liabilities	**846,829**	787,568
Income tax payable	**29,414**	120,052
Deferred tax liabilities	**159,324**	157,405
Convertible notes	**399,671**	2,057,326
Unallocated bank and other borrowings	**356,769**	369,083
Unallocated corporate liabilities	**28,035**	12,887
Consolidated total liabilities	**1,820,042**	3,504,321

4. REDUCTION IN DEBTS AS COMPROMISED WITH CREDITORS

	Six months ended 30 June 2010 (Unaudited)		
	Other borrowings	**Convertible notes**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Write-down of principal	44,000	299,977	343,977
Reverse of interests accrued up to 31 December 2009	34,496	557,683	592,179
Gain recognised to profit or loss	78,496	857,660	936,156

5. FINANCE COSTS

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on convertible notes wholly repayable within five years	**–**	105,196
Interest on bank and other borrowings		
– wholly repayable within five years	**9,515**	29,587
– wholly repayable after five years	**2,660**	36,092
Interest on short-term loan from a director	**29**	97
	12,204	170,972
Less: Amount capitalised as properties held for/under development		
Interest on convertible notes wholly repayable within five years	**–**	(44,182)
Interest on bank and other borrowings wholly repayable within five years	**(4,036)**	(9,357)
	(4,036)	(53,539)
	8,168	117,433
Other borrowing costs	**–**	14,727
Less: Amount capitalised as properties held for/under development	**–**	(11,210)
	–	3,517
Finance costs charged to profit or loss	**8,168**	120,950

6. PROFIT (LOSS) BEFORE INCOME TAX

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

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of materials sold	**–**	10,795
Staff costs (including Directors' emoluments) comprise:		
– Basic salaries and other benefits	**7,369**	33,152
– Bonuses	**–**	1,412
– Equity-settled share-based payment expenses	**–**	240
– Contributions to defined contribution pension plans	**582**	1,256
Total staff costs (including Directors' emoluments)	**7,951**	36,060
Less: Amount capitalised as properties held for/under development	**(2,248)**	(3,305)
	5,703	32,755
Auditors' remuneration – current year	**407**	672
Depreciation of property, plant and equipment	**324**	38,575
Less: Amount capitalised as properties held for/under development	**(26)**	(12)
Total depreciation charged to consolidated statement of comprehensive income	**298**	38,563
Share of loss of associate, net of tax	**8,537**	–
Exchange (gain) loss, net	**(8,448)**	(284)
Write back of impairment losses on rental receivables	**(41)**	–
Provision of impairment losses on rental receivables	**–**	396

7. INCOME TAX CREDIT

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax		
Overseas corporate tax	**–**	–
Deferred tax		
– current year	**–**	1,788
Total income tax credit	**–**	1,788

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2010 (six months ended 30 June 2009: HK$Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2009: 16.5%) on the estimated assessable profits for the six months ended 30 June 2010.

Enterprise income tax arising from other regions of The People's Republic of China is calculated at 25% (six months ended 30 June 2009: 25%) on the estimated assessable profits. No tax provision for the PRC enterprise income has been made for the period as a result of the taxable loss brought forward. 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.

8. DIVIDENDS

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: 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	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit (loss) for the purposes of basic and diluted earnings (loss) per share	**910,369**	(391,905)
	Number of shares	
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	**1,477,687**	1,477,687

For the six months ended 30 June 2010, basic earnings (loss) per share is same as diluted earnings (loss) per share as any effect is anti-dilutive.

10. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 8 to 30 days to its trade customers. The following includes an ageing analysis of trade receivables at the end of the reporting period:

	30 June 2010 *HK$'000* **(Unaudited)**	31 December 2009 *HK$'000* (Audited)
Total trade receivables, net of impairment, with current credit period or current period less than 1 month	**47**	110
Deposits, prepayments and other receivables	**31,852**	31,846
	31,899	31,956

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

The following includes an ageing analysis of trade payables at the end of the reporting period:

	30 June 2010 *HK$'000* **(Unaudited)**	31 December 2009 *HK$'000* (Audited)
Current or less than 1 month	**230**	750
1 to 3 months	**141**	71
More than 3 months but less than 12 months	**1,227**	538
More than 12 months	**3,460**	3,418
Total trade payables	**5,058**	4,777
Construction costs payable	**27,620**	17,474
Advanced payments received from customers		
– Pre-sale deposits received from buyers	**370,471**	246,188
– Receipts in advance, rental and other deposits from customers and/or tenants	**6,387**	1,980
Accrued transaction costs in relation to a disposal of a subsidiary	**33,248**	72,217
Accruals and other payables	**47,216**	75,435
	490,000	418,071

12. CAPITAL COMMITMENTS

	30 June 2010 *HK$'000* **(Unaudited)**	31 December 2009 *HK$'000* (Audited)
Capital expenditure contracted for but not provided for in the Interim Financial Statements in respect of property construction and development costs	**1,099,146**	1,094,981

13. CONTINGENT LIABILITIES

Since the reaching of a moratorium with the Noteholders and the Sky Honest Loan lenders in June 2010, the Notes and the Sky Honest Loan have been recorded at the settlement amounts as compromised under the Settlement Agreement and Restructuring Agreement. As a result, the carrying amounts of indebtedness due for the Notes and the Sky Honest Loan are written down and the accrued interests reversed in the current period. Up to the date of this announcement, the Group have carried out due performance in the first installment payments to the Noteholders and Sky Honest Loan lenders in an aggregate amount of approximately HK$894 million. Subject to the due payment of the remaining final installments totaling approximately HK$480 million, plus surcharges (if applicable) and reimbursable costs on or before 4 January 2011, the Notes will be cancelled and the Sky Honest Loan will be discharged. In the event that the final installments cannot be settled in due course, the indebtedness, in outstanding principal and interests accrued thereon due in respect of the Notes and the Sky Honest Loan will be restated to their original outstanding balances net of payments made by the Group. In such event, the Group will have to bear additional liabilities arising from the restatement of principal sums due to the Noteholders and Sky Honest Loan lenders and interests accrued thereon up to 30 June 2010 in an aggregate of approximately HK$1,098.4 million.

14. EVENTS AFTER THE END OF THE REPORTING PERIOD

Significant events happened after the end of the reporting period are as follows:

(a) Disposal of 100% equity interest in the Tianhe Project

On 26 July 2010, a framework agreement for the disposal of the entire equity interest in a subsidiary engaged in the development of the Tianhe Project was entered into with a third party for a gross sale consideration of RMB1,090,000,000 (equivalent to approximately HK$1,253 million). The Disposal is expected to be completed in October 2010 and the amount of approximately HK$566 million, being the gross amount of the first installment payment from the purchaser of RMB600 million net of direct expenses and taxes, will be applied sufficiently for the payments of the outstanding balances due to the Noteholders and Sky Honest Loan lenders under the Settlement Agreement and Restructuring Agreement. The total committed sum payable to the Noteholders and Sky Honest Loan lenders, if the Disposal is implemented on schedule and funds are repatriated in Hong Kong in mid-November 2010, is estimated at approximately HK$493 million, inclusive of surcharges, costs and expenses. The residue installments receivable from the purchaser totaling RMB370 million, after taking into account certain price adjustments for future development and finance costs that are to be borne by the vendor and estimated at RMB120 million, will be retained in the Group for its working capital.

(b) Termination on Co-operation Agreement in relation to Tianhe Project

On 30 July 2010, the Company entered into an agreement with 廣西廣利貿易有限責任公司 (Guangxi Guang Li Trading Limited) ("Guang Li"), a party which is a cooperative partner in the development of the Tianhe project, to terminate the first and second agreement dated 4 February 2010 and 21 February 2010. Pursuant to the termination agreement, no compensation has to be paid by the Group to Guang Li.

(c) Discharge of the Winding-up Order

As a consequence of the moratoriums reached with the Noteholders and Sky Honest Loan lenders, the creditor and petitioner for the winding up order also agreed not to accelerate the debt due by a subsidiary for which the Company is a guarantor, made an application for the discharge of the winding up order and subsequently on 9 July 2010, the High Court discharged the winding up order of the Company and dismissed the provisional liquidators.

(d) Settlement with a Creditor

On 28 July 2010, a supplemental settlement agreement was entered into between the Company and a creditor of a subsidiary who has been the petitioner of the winding up order. Pursuant to the supplemental settlement agreement, those terms in a settlement agreement reached on 27 January 2010 between the same parties were amended in order that the repayment period of the outstanding debt due to the creditor in a principal amount of approximately HK$49,674,000 plus accrued interests be extended to 31 December 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

Business Review

During the six months ended 30 June 2010, the Group recorded a total turnover of HK$9 million, representing shrinkage of 94% when compared with the correspondence period in last year due to the disposal of the Group's major revenue generating asset, The Westin Guangzhou and Skyfame Tower, in December 2009. The Group has however maintained a stable stream of income from the leasing of the Tianyu Garden Phase II for the period.

The operating results, inclusive of share of loss of an associate of HK$9 million, present a loss of HK$21 million before interest, income tax, depreciation and amortisation of HK$0.3 million (2009: earning of HK$34 million before interest, income tax, depreciation and amortisation of HK$48 million). Other than holding an investment property for stable income, the Group continued its property development business, though no revenue has been booked in the period as the Guiyang Project will only contribute to the income statement in the second half of the year when the completed properties are delivered to buyers for occupation. Hence, routine expenses incurred have put burden to the income statement for the current period and coupled with administrative expenses incurred in the debt rescheduling and provisional liquidation, resulting in a loss from operation.

In addition, interests paid to banks and financial institutions on borrowings, so far not capitalised as development costs, totaling HK$8 million (2009: HK$121 million), brought further loss for the period. The current period charges are solely interests paid to banks for bank financing for the Group's working capital needs and development of the Guiyang Project whilst that for the last period includes interests of HK$79 million charged for the convertible notes (the "Notes") and a term loan of HK$220 million (the "Sky Honest Loan") which were waived when settlements were reached with the noteholders (the "Noteholders") and Sky Honest Loan lenders in June 2010.

Upon the issue of an acceleration notice from the trustee of the Notes due to a default under the trust deed dated 4 May 2007 ("Trust Deed"), the Notes have been presented on the financial statement of the Group as at 31 December 2009 as a liability at the outstanding principal value of US$192 million plus accrued interests, whilst in the last corresponding period in 2009, the financial derivative embedded in the convertible notes is presented at fair value when HK$264 million was booked to recognise the increase in fair value of the derivative. Taking the view of the moratorium with the Noteholders and the Sky Honest Loan lenders in June 2010, the Notes and the Sky Honest Loan are recorded in the accounts at the compromised amounts. Accordingly, the indebtedness due for the Notes and the Sky Honest Loan are written down and the accrued interests reversed, leading to a gain of HK$936 million recognised in the current period.

Property prices have become stable since late 2009, and based on valuation of the directors of the Company (the "Directors"), no adjustment is made to revalue the Group's investment property or write-down of goodwill in the acquired investments.

Overall, the current period records a profit attributable to shareholders of approximately HK$910 million (2009: loss of HK$392 million).

Investment Properties and Properties for Sale

Subsequent to the disposal of the Skyfame Tower in late 2009, the Group remains to hold an investment property of a 20,000 sq.m. commercial podium at Tianyu Garden Phase 2 in Tianhe District, Guangzhou. The property is now 64% occupied, tenanted with renowned corporations and the US consulate.

Properties Development

Guiyang Project

The development, which the Group holds a 55% stake, consists of high-end residential apartments of a total GFA of approximately 580,000 sq.m. and community facilities. The first phase of the development for a total GFA of 90,000 sq.m. were launched for pre-sale in the second quarter of 2009 and 90% of which have been contracted and sale proceeds of HK$370 million have been received from buyers up to 30 June 2010. The proceeds will be recognised as income in the second half of the year as the completed residential units are delivered to buyers for occupation starting from early July this year. The second phase of the development of a total GFA area of approximately 209,000 sq.m. are under construction which are ready to be marketed later this year.

Zhoutouzui Project

The management is performing and will imminently complete all procedures in obtaining the necessary permits and approvals from the government to facilitate the immediate commencement of construction work on the site, which is realistically expected to take place later this year. The property is a plot of land with a site area of approximately 86,557 sq.m. and a planned GFA of 316,141 sq.m. consisting of mainly residential, office and service apartments, and ancillary facilities of commercial and carparks. The site, opposite to the renounced White Swan Hotel, offers a GFA of 146,077 sq.m. for the construction of riverfront residential units with full view of the Pearl River.

Tianhe Project

The construction of the new fire station is approaching completion so that the relocation of the fire station erected on the Tianhe site will take place in the coming months of 2010. In the past months, great efforts have been put in the negotiations with the regulatory authorities for extending the construction period of the land which has lapsed. Negotiations are successful and the extension was granted without penalty.

Subsequent Events

After series of negotiations with Noteholders and the lenders of Sky Honest Loan, there have been breakthroughs since 7 June 2010, the Company and certain subsidiaries entered into two agreements respectively with, amongst others, the trustee and security trustee acting on behalf of the Noteholders ("Settlement Agreement") and the facility and security agent acting for the Sky Honest Loan lenders ("Restructuring Agreement"). Pursuant to the two agreements, the indebtedness due to the two groups of creditors are reduced to US$153.6 million for the Notes and HK$176 million for the Sky Honest Loan if the Group can satisfy the payment obligations on or before 4 October 2010. Settlements beyond then but before 4 January 2011 are subject to surcharges. However, failure to meet with these obligations before 4 January 2011 will render the Settlement Agreement and Restructuring Agreement invalid. In view of the moratorium, the petitioner for the winding up order made an application for the discharge of the winding up order and subsequently on 9 July 2010, the High Court discharged the winding up order of the Company and dismissed the provisional liquidators.

Pursuant to the two agreements entered with the creditors, securities that have been accelerated by receivers appointed by the creditors by reason of defaults under the Trust Deed and the Sky Honest Loan were restored and the receivers appointed by the Noteholders and Sky Honest Loan lenders were discharged on 23 July 2010. Simultaneously, the boards of directors of the subsidiaries of the Company under receivership are restored to their original positions at the time prior to the acceleration of the Notes and operations of the Group has now resumed normal.

On 26 July 2010, a framework agreement for the disposal of the entire equity interest in a subsidiary engaged in the development of the Tianhe Project was entered into with a third party for a gross sale consideration of RMB1,090,000,000 (equivalent to approximately HK$1,253 million) (the "Disposal"). The Disposal is expected to be completed in October 2010 and the amount of approximately HK$566 million, being the gross amount of the first installment payment from the purchaser of RMB600 million net of direct expenses and taxes, will be applied sufficiently for the payments of the outstanding balances due to the Noteholders and Sky Honest Loan lenders under the Settlement Agreement and Restructuring Agreement. The total committed sum payable to the Noteholders and Sky Honest Loan lenders, if the Disposal is implemented on schedule and funds are repatriated in Hong Kong in mid-November 2010, is estimated at approximately HK$493 million, inclusive of surcharges, costs and expenses. Upon full settlement, the Notes of an outstanding principal of US$192 million will be cancelled and the Sky Honest Loan of HK$220 million will be fully discharged. The residue installments receivable from the purchaser totaling RMB370 million, after taking into account certain price adjustments for future development and finance costs that are to be borne by the vendor and estimated at RMB120 million, will be retained in the Group for its working capital.

The Directors believe that the anticipated settlements with the Noteholders and Sky Honest Loan lenders and the satisfactory completion of the debt restructuring afterwards will substantially reduce the liabilities and finance costs of the Group and the Disposal can provide the Group with sufficient financial resources to allow the management to use its endeavors in running its development projects on hand.

Going Concern

The series of restructuring programs mentioned in the aforesaid paragraphs indicate that the financial position of the Group is being stabilised. Accordingly, 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 that the business of the Group is a going concern after having considered the assumptions and qualifications that may have material effects on the foreseeable period covering the next twelve months since the end of this reporting period (the "balance sheet date"). Key assumptions of a going concern rest on successful implementation of the Disposal, the fulfillment of all the Group's obligations under the Settlement Agreement and Restructuring Agreement, a stable general economic performance in the PRC and the real estate sector, and additional banking facilities, if required, to finance the construction work in progress and project commencing construction.

Outlook

In light of the executed agreement to dispose of Tianhe Project and the implementation of the transaction as contemplated with creditors, the liabilities of the Group will be reduced and gearing improved. The Group will also be completely relieved from the financial crisis faced in the past over one year that had caused interruptions to the Group's business activities. With sufficient resources derived from the Disposal, we envisage a promising future in the coming years.

In the last quarter of this year, the emerging European sovereign debt crisis brought downside risks to the recovery of the global economy by the adversely affected confidence in the investment markets, though economy in the mainland China is still sustaining steady growth. To continue the economic trend, the central government maintains loose monetary measures after putting consolidation measures in particular on the real estate sector to curb speculation and bubbles in early of the year. Amid such threats, thanks to the Group's experience in managing the one-year long financial crisis, the management has proven ability to overcome the difficulties and will concentrate full efforts on its existing development projects whilst at the same time look for expansion opportunities. The directors believe that the Group has strong essence and sufficient financial strength to survive amid the confronting challenges.

Liquidity and Financial Resources

Capital Structure and Liquidity

On the last report date of 31 December 2009, the convertible notes with outstanding principal value of US$192 million (equivalent to approximately HK$1,500 million) were presented in the statement of financial position as a liability and the embedded financial derivative component was de-recognised. Following the moratorium reached with Noteholders and Sky Honest Loan lenders, the convertible notes are carried in the books at the compromised value of US$153.6 million (equivalent to approximately HK$1,198 million) and the Sky Honest Loan at HK$176 million, representing a substantial reduction in liabilities of HK$936 million which is recognised as a gain in the income statement for the period.

Apart from the Notes and the Sky Honest Loan, the Group is indebted to commercial banks for a mortgage loan and construction loan, other borrowings and advance from a minority shareholder of a subsidiary, totaling approximately HK$566 million (31 December 2009: HK$531 million).

The gearing ratios, based on the net debt (represented by bank and other borrowings, the Sky Honest Loan, the Notes and advance 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 30 June 2010 and 31 December 2009 are 33% and 76% respectively. The substantial drop in indebtedness is explained by the reduction in debts as compromised with the Noteholders and Sky Honest Loan lenders. The Directors believe that the anticipated settlements with the Noteholders and Sky Honest Loan lenders after the second installments have been paid with the net proceeds from the Disposal will substantially further reduce the liabilities and finance costs of the Group.

The current assets amounted to approximately HK$1,018 million which decreased substantially as a result of 90% of the consideration receivable from the disposal of the Westin Project was received of which US$100 million was used to pay for the first payment to the Noteholders on 30 June 2010 pursuant to the Settlement Agreement. Then subsequently on 2 July, HK$116.4 million was used to pay for the first installment plus reimbursable expenses to the Sky Honest Loan lenders in compliance with the Restructuring Agreement. The current ratio was 0.9 to 1 (31 December 2009: 0.6 to 1). The ratio reflects that the Group is still under pressure to settle the short-term liabilities, in particular the convertible notes and Sky Honest Loan, when they are due in the coming months. Taking into account of the settlement to the Sky Honest Loan lenders to the balance sheet date, the cash balance of approximately HK$149 million was maintained by the Group at the balance sheet date. Despite the foregoing, the Disposal will solve the problem by improving the liquidity position of the Group and enable the settlement of its short term financial commitments.

Borrowings and Pledge of Assets

Cash of approximately of HK$32 million held at the balance sheet date was restricted for construction costs of works-in-progress whilst cash in bank accounts of approximately HK$17 million (31 December 2009: HK$22 million) previously placed in deposits and restricted for the payment of interests to Noteholders was transferred out from the deposits for the partial payment of the final installment due to the Noteholders pursuant to the Settlement Agreement. Apart from the escrowed deposits, shares of certain intermediate holding companies of the property developing subsidiaries of the Group were charged in favor of the security agents acting for the Noteholders and the Sky Honest Loan lenders. To secure for banking facilities in the total of RMB221 million granted to operating subsidiaries for working capital and construction costs by two commercial banks in the mainland China, mortgages of property interests in Tianyu Garden Phase 2 and works in progress and land of the Guiyang Project were charged in favour of the banks. On 30 June 2010, other than the Notes and the Sky Honest Loan, secured bank borrowings in an aggregate amount of approximately HK$246 million (31 December 2009: HK$247 million) were outstanding of which approximately HK$8 million (31 December 2009: HK$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 in US dollars and the Sky Honest Loan in HK dollars.

Due to the slight appreciation of RMB against HK and US dollars during the period, a foreign exchange gain of HK$23 million arises on consolidation of the assets and liabilities of the PRC subsidiaries. An exchange reserve totaling HK$246 million as at 30 June 2010 adds to the equity attributable to shareholders of the Company. Since 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 foreseeable future but possible appreciation in the exchange rates of RMB against HK dollars, 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

Since the reaching of moratoriums with the Noteholders and the Sky Honest Loan lenders in June 2010, the Notes and the Sky Honest Loan have been recorded at the settlement amounts as compromised under the Settlement Agreement and Restructuring Agreement. As a result, the amounts of indebtedness due for the Notes and the Sky Honest Loan are written down and the accrued interests reversed in the current period. Up to the date of this announcement, the Group have carried out due performance in the first installment payments to the Noteholders and Sky Honest Loan lenders in an aggregate amount of approximately HK$894 million. Subject to the due payment of the remaining final installments totaling approximately HK$480 million, plus surcharges (if applicable) and reimbursable costs on or before 4 January 2011, the Notes will be cancelled and the Sky Honest Loan will be discharged. In the event that the final installments cannot be settled in due course, the indebtedness, in outstanding principal and interests accrued thereon in respect of the Notes and the Sky Honest Loan will be restated to their original outstanding balances net of payments made by the Group. In such event, the Group will have to bear additional liabilities arising from the restatement of principal sums due to the Noteholders and Sky Honest Loan lenders and interests accrued thereon up to 30 June 2010 in an aggregate of approximately HK$1,098 million.

CORPORATE GOVERNANCE

None of the Directors are 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 2010 interim 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 small size of the management team, both the roles of the Chairman and Chief Executive Officer of the Company are currently held by Mr. Yu Pan. The Board considers the current and management team is efficient and is sufficient to meet the daily needs 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 Model Code for Securities Transaction by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. 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 2010.

AUDIT COMMITTEE

The principal duties of the Audit Committee include the review of the Company's financial reporting procedures, 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.

OTHER

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; and three Independent Non-executive Directors, namely Mr. Choy Shu Kwan, Mr. Cheng Wing Keung, Raymond and Ms. Chung Lai Fong.

Trading in the shares of the Company has been suspended since 9:30 a.m. on 3 November 2009 at the request of the Company and will remain suspended until further notice.

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

Hong Kong, 4 August 2010