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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 2011**

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 2011, together with comparative figures for the corresponding period of 2010. The unaudited consolidated interim results have been reviewed by the audit committee of the Company.

* for identification purpose only

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited and restated)
Revenue	2	18,914	8,645
Cost of sales and services		(7,976)	(1,458)
Gross profit		10,938	7,187
Other income	4	27,013	8,653
Sales and marketing expenses		(7,361)	(2,865)
Administrative expenses		(33,487)	(31,591)
Gain on debt extinguishment		–	1,077,764
Share of loss of associate, net of tax		–	(8,537)
Gain on disposal of a subsidiary, net of tax		10	–
Finance costs	3	(24,598)	(143,725)
Finance income		7,873	1,372
(Loss) profit before income tax	4	(19,612)	908,258
Income tax expense	5	(90)	–
(LOSS) PROFIT FOR THE PERIOD		(19,702)	908,258
Other comprehensive income:			
Exchange differences arising on foreign operations		57,422	23,138
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		37,720	931,396
(Loss) profit for the period attributable to:			
– Owners of the Company		(13,800)	910,369
– Non-controlling interests		(5,902)	(2,111)
		(19,702)	908,258
Total comprehensive income for the period attributable to:			
– Owners of the Company		42,818	933,303
– Non-controlling interests		(5,098)	(1,907)
		37,720	931,396
(Loss) earnings per share	7		
– Basic		(HK0.93 cents)	HK61.61 cents
– Diluted		(HK0.93 cents)	HK61.61 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
	Notes		
Non-current assets			
Property, plant and equipment		2,479	2,840
Investment properties		577,895	568,182
Properties held for development		2,407,286	2,262,817
Goodwill		16,491	16,214
Consideration receivable for disposal of a subsidiary – non-current portion	8	91,023	84,718
		<u>3,095,174</u>	<u>2,934,771</u>
Current assets			
Properties held for sale		129,645	133,121
Properties under development		451,616	362,388
Consideration receivable for disposal of subsidiaries – current portion	8	150,418	653,673
Trade and other receivables	9	85,886	19,303
Restricted and pledged deposits		767,830	630,213
Cash and cash equivalents		292,918	28,820
		<u>1,878,313</u>	<u>1,827,518</u>
Current liabilities			
Trade and other payables	10	526,242	258,458
Bank and other borrowings – current portion	11	704,239	804,689
Loan from non-controlling shareholder of a subsidiary – current portion		21,671	47,998
Income tax payable		98,069	130,937
		<u>1,350,221</u>	<u>1,242,082</u>
Net current assets		<u>528,092</u>	<u>585,436</u>
Total assets less current liabilities		<u>3,623,266</u>	<u>3,520,207</u>

		30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
	<i>Notes</i>		
Non-current liabilities			
Bank and other borrowings – non-current portion	11	84,276	87,003
Loan from non-controlling shareholder of a subsidiary – non-current portion		199,554	173,225
Deferred income	12	1,109,328	1,106,861
Deferred tax liabilities		200,817	197,441
		1,593,975	1,564,530
Net assets		2,029,291	1,955,677
Capital and reserves			
Share capital		14,777	14,777
Reserves		1,946,542	1,903,724
Equity attributable to owners of the Company		1,961,319	1,918,501
Non-controlling interests		67,972	37,176
Total equity		2,029,291	1,955,677

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

These unaudited condensed consolidated financial statements for the six months ended 30 June 2011 (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 2010.

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 2010.

2. REVENUE AND SEGMENT REPORTING

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 in the PRC, no geographical information is presented. The Group’s reportable segments 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 charges of assets attributable to those segments. Corporate income and expenses, finance costs and income, results of associate 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) profit before interest (finance costs and income), income tax and depreciation (“adjusted EBITDA”). In addition to information concerning adjusted EBITDA, management also provides other segment information concerning depreciation and share of loss of associate.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of cash and bank balances, unallocated bank and other borrowings and taxes. Information regarding the Group’s reportable segments as provided to the Group’s 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
<i>Six months ended 30 June 2011 (Unaudited)</i>				
External and consolidated revenue				
Sale of properties	8,995	–	–	8,995
Rental income	641	9,278	–	9,919
Reportable segment revenue	9,636	9,278	–	18,914
Operating results	2,708	2,217	–	4,925
Add: Depreciation	113	217	–	330
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	2,821	2,434	–	5,255
Bad debts recovered	–	32	–	32
Capital expenditure incurred during the period	185,312	–	–	185,312
<i>As at 30 June 2011 (Unaudited)</i>				
Assets				
Reportable segment assets	3,328,862	581,257	–	3,910,119
Liabilities				
Reportable segment liabilities	1,833,811	19,203	–	1,853,014
<i>Six months ended 30 June 2010 (Unaudited)</i>				
Rental income, Reportable segment revenue – external and consolidated revenue				
	158	8,487	–	8,645
Operating results	(10,077)	5,911	218	(3,948)
Add: Depreciation	118	1	–	119
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	(9,959)	5,912	218	(3,829)
Share of loss of associate, net of tax	(8,537)	–	–	(8,537)
Bad debts recovered	–	41	–	41
Capital expenditure incurred during the period	109,221	–	–	109,221
<i>As at 31 December 2010 (Audited)</i>				
Assets				
Reportable segment assets	3,501,726	571,077	29,495	4,102,298
Liabilities				
Reportable segment liabilities	1,512,375	14,482	46,583	1,573,440

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Results		
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	5,255	(3,829)
Unallocated corporate expenses before depreciation and amortisation	(7,815)	(14,489)
	(2,560)	(18,318)
Depreciation and amortisation		
– Reportable segment	(330)	(119)
– Unallocated	(7)	(179)
	(2,897)	(18,616)
Gain on debt extinguishment	–	1,077,764
Gain on disposal of a subsidiary, net of tax	10	–
Share of loss of associate, net of tax	–	(8,537)
Finance costs	(24,598)	(143,725)
Finance income	7,873	1,372
	(19,612)	908,258
Consolidated (loss) profit before income tax		
Capital expenditure incurred during the period		
– Reportable segment	185,312	109,221
– Unallocated	243	–
	185,555	109,221
	As at	As at
	30 June	31 December
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Assets		
Reportable segment assets	3,910,119	4,102,298
Restricted and pledged deposits	767,830	630,213
Cash and cash equivalents	292,918	28,820
Unallocated corporate assets	2,620	958
	4,973,487	4,762,289
Consolidated total assets		
Liabilities		
Reportable segment liabilities	1,853,014	1,573,440
Income tax payable	98,069	130,937
Deferred tax liabilities	200,817	197,441
Unallocated bank and other borrowings	788,516	891,692
Unallocated corporate liabilities	3,780	13,102
	2,944,196	2,806,612
Consolidated total liabilities		

3. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Interest on convertible notes wholly repayable within five years	–	119,281
Interest on bank and other borrowings		
– wholly repayable within five years	19,256	25,791
– wholly repayable after five years	2,546	2,660
Imputed interest on loan from non-controlling shareholder of a subsidiary	5,314	–
Interest on short-term loan from a director	–	29
	27,116	147,761
<i>Less: Amount capitalised as properties held for/under development</i>		
Interest on bank and other borrowings wholly repayable within five years	(3,759)	(4,036)
	23,357	143,725
Other borrowing costs	1,241	–
Finance costs charged to profit or loss	24,598	143,725

4. (LOSS) PROFIT BEFORE INCOME TAX

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Cost of properties sold	5,698	–
Staff costs (including Directors' emoluments) comprise:		
– Basic salaries and other benefits	16,812	12,017
– Contributions to defined contribution pension plans	818	784
Total staff costs (including Directors' emoluments)	17,630	12,801
<i>Less: Amount capitalised as properties held for/under development</i>	(6,240)	(4,172)
<i>Less: Amount classified as share of loss of associate</i>	–	(2,926)
	11,390	5,703
Auditors' remuneration – current period	410	407
Depreciation of property, plant and equipment	372	324
<i>Less: Amount capitalised as properties held for/under development</i>	(35)	(26)
Total depreciation charged to profit or loss	337	298
Gain on disposal of property, plant and equipment	(12)	–
Reversal of over-provision of land appreciation tax relating to a disposal of a subsidiary in prior year (included as other income)	(24,887)	–
Exchange (gain) loss, net	(1,960)	(2,397)
Bad debts recovered	(32)	(41)

5. INCOME TAX EXPENSE

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Overseas corporate tax	–	–
PRC land appreciation tax		
– current period	90	–
Total income tax expense	<u>90</u>	<u>–</u>

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2011 (six months ended 30 June 2010: 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 2010: 16.5%) on the estimated assessable profits for the six months ended 30 June 2011.

Enterprise income tax arising from other regions of The People's Republic of China is calculated at 25% (six months ended 30 June 2010: 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.

The provision of PRC 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.

6. DIVIDENDS

The Directors do not recommend the payment of interim dividend in respect of the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

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

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

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
(Loss) profit for the purposes of basic and diluted (loss) earnings per share	<u>(13,800)</u>	<u>910,369</u>
	Number of shares	
	'000	'000
Weighted average number of ordinary shares		
for the purposes of basic and diluted (loss) earnings per share	<u>1,477,687</u>	<u>1,477,687</u>

For the six months ended 30 June 2011 and 2010, basic earnings (loss) per share are same as diluted (loss) earnings per share as any effect from the Company's share options is anti-dilutive.

8. CONSIDERATION RECEIVABLE FOR DISPOSAL OF SUBSIDIARIES

		30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
	<i>Notes</i>		
Westin Project	(a)	–	52,047
Tianhe Project	(b)	241,441	686,344
		241,441	738,391
Amounts due within one year included in current assets		(150,418)	(653,673)
Amount due after one year – Tinahe Project		91,023	84,718

Notes:

- (a) The balance relates to the remaining interest-free balance of the final instalment receivable for the disposal of the Westin Project that was fully received in the current period.
- (b) The balance relates to the outstanding instalments receivable for the disposal of 廣州寰城實業發展有限公司 (Guangzhou Huan Cheng Real Estate Development Company Limited) (“Huan Cheng”) (Tianhe Project) that is unsecured and interest-free. The principal amount of the receivable is approximately HK\$255,157,000 (approximately RMB211,933,000) (31 December 2010: HK\$702,526,000 (approximately RMB593,494,000)) and is carried on the statement of financial position at amortised cost of approximately HK\$241,441,000 (31 December 2010: HK\$686,344,000) as at 30 June 2011. A sum of approximately HK\$455,106,000 (approximately RMB381,561,000) had been received during the current period but an outstanding amount of approximately HK\$156,919,000 (approximately RMB130,337,000) is due in April 2011 but remains unsettled. Based on the supplemental agreement entered into on 1 July 2011 (as detailed in note 16) with 海航酒店控股集團有限公司 (HNA Hotel Holdings Group Co. Limited) (“HNA Hotel”), the purchaser of the interest in Huan Cheng, and the Directors’ assessment on the timing of fulfillment of the Group’s obligations set out in the agreement, the remaining balance of the second instalment amounting to approximately HK\$156,919,000 (approximately RMB130,337,000) after deduction of relocation cost of fire station of approximately HK\$6,501,000 will be receivable within one year whilst the final instalment of approximately HK\$91,023,000 is receivable in 2013.

9. 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 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Current (not yet due)	44	76
Less than 1 month	218	–
1 to 3 months	121	–
More than 3 months but less than 12 months	55	–
Amount past due at balance sheet date but not impaired	394	–
Total trade receivables	438	76
Surety deposit paid in respect of co-operative agreement on a new project	36,118	–
Refundable earnest money in development project	2,408	–
Prepaid construction costs	7,349	7,315
Business taxes and surcharges paid for pre-sold properties	23,184	3,775
Deposits, prepayments and other receivables	16,389	8,137
	85,886	19,303

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.

10. TRADE AND OTHER PAYABLES

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

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Current or less than 1 month	476	350
1 to 3 months	13	–
More than 3 months but less than 12 months	455	–
More than 12 months	3,653	3,722
Total trade payables	4,597	4,072
Construction costs payable	68,440	79,739
Advanced payments received		
– Pre-sale deposits received from buyers	403,597	70,055
– Receipts of rental and other deposits from buyers, customers and/or tenants in advance	16,605	12,235
Accrued transaction costs in relation to disposal of subsidiaries	1,793	46,744
Interest payable on bank and other borrowings	2,552	10,751
Other accrued expenses and other payables	28,658	34,862
	526,242	258,458

11. BANK AND OTHER BORROWINGS

		30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
	Notes		
Interest-bearing, secured			
– bank borrowings			
(i) term loan and construction loan	(a)	226,402	244,082
(ii) money market loans	(b)	525,995	526,076
– other borrowing	(c)	–	38,674
Interest-bearing, unsecured			
– other borrowings	(d)	36,118	82,860
		788,515	891,692
Amounts due within one year included in current liabilities		(704,239)	(804,689)
		84,276	87,003

Notes:

- (a) As at 30 June 2011, the bank borrowings are secured by mortgages of ownership titles of: (i) properties held for/ under development; (ii) properties held for sale and (iii) investment properties with an aggregate carrying value of approximately HK\$1,006,789,000 (31 December 2010: HK\$1,156,739,000). The bank loans carry interest at variable market rates of 6.12% and 6.40% per annum (31 December 2010: 5.76% and 5.85% per annum) as at 30 June 2011. The amount of HK\$133,698,000 will be repayable in full in 2012 and the balance of HK\$92,704,000 will be repaid by quarterly instalment until 2019.
- (b) Deposits of RMB485,625,000 (approximately HK\$584,668,000) were deposited with two banks in the PRC which were used to secure three money market loans aggregated at US\$67,700,000 (approximately HK\$525,995,000) extended by a bank in Hong Kong. The money market loans carry fixed base interest rate of 0.75% per annum plus a spread at 2.3% per annum as at 30 June 2011 in respect of loans totaling US\$39,200,000 and 2.8% per annum as at 30 June 2011 in respect of loan of US\$28,500,000 (31 December 2010: 3 months USD LIBOR plus a spread at 1.8% per annum) and are repayable in October 2011.
- (c) The amount represents the balance of consideration payable for an acquisition of a subsidiary in 2006. The repayment of the debt carried interest at the rate of 20% per annum (31 December 2010: 20% per annum) and was fully repaid in March 2011.
- (d) The balance represents unsecured loans advanced from a third party bearing interest at the rate of 20% per annum (31 December 2010: 20% per annum) and is repayable in May 2012.

12. DEFERRED INCOME

In July 2010, a framework agreement (“Agreement”) for the disposal of the entire equity interest in Huan Cheng, the project company for the development of the Tianhe Project, was entered into between the Company, Yaubond Limited (“Yaubond”) and a third party, HNA Hotel for a gross consideration (“Consideration”) of RMB1,090,000,000 (approximately HK\$1,270,100,000), before certain adjustments.

At the date of completion of the disposal on 20 September 2010, the adjusted Consideration (having been increased by approximately HK\$44,597,000 representing adjustment for net assets transferred to HNA Hotel and reduced by future development costs and finance costs to be borne by the Group, which are estimated to be approximately HK\$23,304,000 and HK\$40,783,000 respectively) is estimated to be approximately HK\$1,250,610,000. Netting against the adjusted Consideration by the estimated direct expenses incurred for the disposal of approximately HK\$127,566,000 and discounted by approximately HK\$13,716,000 (31 December 2010: HK\$16,183,000) to the present value as at the end of reporting period, the net income derived from the disposal is estimated at approximately HK\$1,109,328,000 (31 December 2010: HK\$1,106,861,000).

The balance of consideration receivable as at 30 June 2011 of approximately RMB211,933,000 (31 December 2010: RMB593,494,000) is detailed in note 8(b).

The Directors consider that the Agreement constitutes an agreement for the sale of goods/services and the criteria for recognition of revenue set out in paragraph 14 of HKAS 18 “Revenue” apply. At the end of reporting period, the Directors are uncertain about the due performance of certain obligations under the Agreement in particular, the costs to be incurred in respect of the transaction under the prevailing agreement caused by overruns in construction costs not due to the change in design plan proposed by HNA Hotel and the delay in construction of the project beyond 32 months from the date of the first instalment payment. Accordingly, the Directors are of the view that the revenue recognition criteria set out in HKAS 18 have not been fully satisfied and therefore the disposal transaction is not recognised until when substantial part of the associated costs can be ascertained reliably. The revenue and associated costs of the disposal are deferred until the construction is completed to a substantial progress where associated costs can be reliably measured. Therefore, the sale consideration net of estimated expenses is recorded as deferred income at the date of completion of the disposal. The underlying assets and liabilities of the Tianhe Project are not derecognised, but instead aggregated and classified under properties held for development in the consolidated statement of financial position.

13. CAPITAL COMMITMENTS

	30 June 2011 HK\$'000 (Unaudited)	31 December 2010 HK\$'000 (Audited)
Capital expenditure contracted but not provided for in the Interim Financial Statements in respect of		
– Property construction and development costs	<u>238,958</u>	<u>1,226,345</u>
Capital expenditure authorised but not contracted for in the Interim Financial Statements in respect of		
– Property construction and development costs	<u>2,741,199</u>	–
– Acquisition of land use right	<u>1,252,107</u>	–
	<u>3,993,306</u>	–

14. CONTINGENT LIABILITIES

The Group provides guarantees to the extent of approximately HK\$383,164,000 as at 30 June 2011 (31 December 2010: HK\$218,356,000) in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.

15. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified in conformity with the current period's presentation.

16. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

On 1 July 2011, Yaubond, a wholly subsidiary of the Company, entered into a supplemental agreement with, among others, HNA Hotel pursuant to which if HNA Hotel fails to settle the outstanding second instalment of the consideration for the disposal of Tianhe Project of approximately RMB130 million within 90 days from the date of the agreement in cash, will transfer the property interests of the 32nd and 33rd floors of HNA Tower owned by HNA Hotel, which are being used by the Group as the head office in Guangzhou, to a subsidiary of the Company as full and final settlement of the outstanding consideration payable by HNA Hotel of approximately RMB130 million (approximately HK157 million).

On 2 August 2011, Fine Luck Group Limited, a wholly owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding ("MOU") with 海航商業控股有限公司 (HNA Commercial Holdings Limited) ("HNA Commercial"). Pursuant to the MOU, HNA Commercial proposes to acquire 50% equity interest of Fortunate Start Investments Limited which indirectly holds the entire equity interest of Zhoutouzui Project at a consideration of RMB1,300 million (approximately HK\$1,565 million). The parties target to enter into a formal agreement on or before 31 October 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

Business Review

Results

During the six months ended 30 June 2011, the Group recorded a turnover of HK\$19 million (2010: HK\$9 million), mainly comprising rental income from the leasing of Tianyu Garden Phase II for HK\$9 million and sales of properties in phase one of Guiyang Project for HK\$9 million which were completed in the second half of the year 2010.

The current period was a time when the profit and loss account reflected normal operating expenses incurred by a developer except for a reversal of an over provision of land appreciation tax provided for the disposed Westin Project that was recorded as other income of HK\$25 million for the period. Operating expenses, mainly staff costs, totaling HK\$41 million, representing an 19% increase from the past period, had a rising trend due to the increasing activities in the property development operations.

Finance costs for the period was HK\$25 million (2010: HK\$144 million (as restated)) that included interest paid to banks and financial institutions on borrowings for the Group's working capital needs and development of Guiyang Project. Interests capitalised for the period was HK\$4 million.

Loss for the period amounted to HK\$20 million (2010: profits of HK\$908 million) of which HK\$14 million (2010: profits of HK\$910 million) was attributable to shareholders of the Company. The tremendous difference in the bottom line for the two periods was explained by the gain of HK\$1,078 million (as restated) for the last corresponding period arising from the debts waived by convertible noteholders upon the implementation of a debt restructuring program in 2010.

Investment Properties

Tianyu Garden Phase 2

The property is a 20,000 sq.m. commercial podium in Tianhe District, Guangzhou and is now 80% occupied, tenanted with renounced 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 GFA of approximately 449,000 sq.m. for residential apartments and GFA of approximately 142,000 sq.m. for commercial complex, community facilities and carparking spaces. The first phase with GFA of 133,000 sq.m. was completed in 2010 of which 94% and 2% residential apartments were sold in the second half of the year 2010 and in the current period respectively.

The second phase comprises four blocks of residential building with GFA of approximately 162,000 sq.m.. Since the pre-sale of the second phase launched in September 2010, the Group has contracted sales amounting to approximately RMB405 million (approximately HK\$488 million) and up to 56% in GFA available for pre-sale. The average selling price of the second phase was achieved at approximately RMB4,500 per sq.m.. The management expects the second phase will be delivered to buyers and sales recorded as revenue in 2012.

The construction of the third phase of the development, consisting of five residential buildings with common facilities and car parking spaces of GFA of 245,000 sq.m., is expected to commence in late 2011.

Zhoutouzui Project

The project is held by a sino-foreign cooperative joint venture enterprise which is jointly controlled by the Company and two other independent third parties, namely 廣州越秀企業(集團)公司 (Guangzhou Yuexiu Enterprise Group Ltd.) and 廣州港集團有限公司 (Guangzhou Port Group Co. Ltd.), the former being the original land use right holder with no vested interest in the project and the latter an original user of the land who is entitled to share 28% in GFA of the completed properties. Under the joint venture agreement, the Group has to finance all construction costs of the entire development.

Properties that are planned to be developed on the site of 86,557 sq.m. are a total of seven towers consisting of residential apartments, offices, service apartments, car parking facilities and a commercial complex in GFA of totaling approximately 316,000 sq.m. The site, opposite to the renounced White Swan Hotel, offers a wide waterfront view of the Pearl River. Pending the issue of the necessary governmental approvals on the design plan and detailed construction plan which are now under final vetting and are expected to be obtained soon, the construction works will commence in the fourth quarter of 2011. The management expects to put the project for pre-sale in 2013.

Yongzhou Project

On 30 June 2011, the Company entered into a framework agreement to cooperate with the City Government of Yongzhou, Hunan Province about an engagement with the Company to manage the project in remodeling of some old scenic spots and construction of infrastructure in a scenic zone and a commercial district in the central city of Yongzhou. Under the framework agreement, the Company is also committed to the construction of a five-star hotel and properties for resettlement of the land occupants. In return, the Company will be given the right to develop a real estate project on some parcels of 1,000 mu land located in Lingling District in Yongzhou, subject to the undergoing of the bidding process for the transferring of the land use rights in public auctions. The project will be undertaken by a joint venture which is held as to 70% by the Group and as to 30% by a joint venture partner who is a local developer with relevant experience in remodeling of scenic zone.

The Company plans to turn the Yongzhou Project into commercial and residential developments in four phases with a planned total gross floor area of approximately 1.7 million sq.m.. The development will offer low rise apartments and low density villas for residence and commercial complex for retailing and commercial uses. The total construction cost of the entire development is estimated at approximately RMB2,500 million which will be financed by capital contribution from the joint venture partners, bank borrowings and sale proceeds to be received from properties developed and put for pre-sale in phases.

The development of the first phase of the Yongzhou Project will be commenced in the third quarter of 2011 whilst it is planned that the last phase will be completed in late 2015. Other than the hotel for operation which construction will be completed in 2016 and an estimated area of 80,000 square meters reserved for the construction of properties for resettlement, the remaining gross floor area that will be developed for sales is approximately 1.5 million sq.m. and the first phase of the development will be launched for pre-sale commencing in the year 2012.

Subsequent Events

On 1 July 2011, Yaubond Limited, a wholly subsidiary of the Company, entered into a supplemental agreement with, among others, 海航酒店控股集團有限公司 (HNA Hotel Holdings Group Co. Limited) (“HNA Hotel”) pursuant to which if HNA Hotel fails to settle the outstanding second instalment of the consideration for the disposal of Tianhe Project of approximately RMB130 million within 90 days from the date of the agreement in cash, will transfer the property interests of the 32nd and 33rd floors of HNA Tower owned by HNA Hotel, which are being used by the Group as the head office in Guangzhou, to a subsidiary of the Company as full and final settlement of the outstanding consideration payable by HNA Hotel of approximately RMB130 million (approximately HK\$157 million).

On 2 August 2011, Fine Luck Group Limited, a wholly owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding (“MOU”) with 海航商業控股有限公司 (HNA Commercial Holdings Limited) (“HNA Commercial”). Pursuant to the MOU, HNA Commercial proposes to acquire 50% equity interest of Fortunate Start Investments Limited which indirectly holds the entire equity interest of Zhoutouzui Project at a consideration of RMB1,300 million (approximately HK\$1,565 million). The parties target to enter into a formal agreement on or before 31 October 2011.

Outlook

In the midst of the continuing austerity measures taken by the mainland government that continue to pressurize property developers on the mainland in getting finance and the gloomy capital markets which are adversely affected the uncertainties over the European and the American sovereign debts crisis, the Company is, however, comparatively less affected as the Group has been in a low gearing position since the debt restructuring in 2010 and it now has low financial pressure in meeting with its commitments.

In light of the banking facilities that are made and will be made available to the Group, the Group has sufficient working capital in the coming months under review to meet with its daily operation in its projects under development, including the Zhoutouzui Project and the first phase of the development of the Yongzhou Project. In addition, the management foresees that the projects currently under development will generate sufficient proceeds from pre-sales to finance their respective ongoing stages of development. Notwithstanding the foregoing, financial resources are still the pre-requisite requirement in the Group's plan to increase its land reserves for future expansion. The management is currently in close discussions with HNA Commercial on the contemplated joint venture partnership in Zhoutouzui Project aiming to raise additional financial resources and realisation of land portfolio on hand to their market values. We are confident that, when such transaction crystallizes, the Group's strategy to further expand can be worked out.

The directors are confident that the property market, whilst currently dampened by the austerity measures imposing restrictions on buyers and bank financing available to developers, in the long run is supported by strong demand driven by the hasty urbanisation and expectation for improved living standard of the mainland population. Such demand is particularly seen in markets in the second and third tiers. Our move to those cities in Guiyang and Yongzhou is a step taken in the right time. The directors believe that the trading prospect of the property market is still positive in the longer run and the Group is prepared to reap a satisfactory return for its shareholders in the years to come.

Liquidity and Financial Resources

Capital structure and liquidity

As at 30 June 2011, the Group's indebtedness, exclusive of the money market loans of HK\$526 million (31 December 2010: HK\$526 million) that are secured by bank deposits, totaled HK\$484 million (31 December 2010: HK\$587 million) and was comprised of (i) a mortgage loan and construction loan due to commercial banks totaling HK\$227 million (ii) other unsecured borrowing due to a third party of HK\$36 million and (iii) advances of HK\$221 million from a non-controlling shareholder of a subsidiary for the financing of the operation of the subsidiary.

The money market loans of approximately HK\$526 million (US\$67.7 million) referred to above was denominated in US dollar and matures in one year and secured by bank deposits denominated in Renminbi ("RMB"). The arrangement demonstrates the Company's strategy in treasury management to take advantage of the foreseeable appreciation of RMB against US dollar.

The gearing ratio of the Group as at 30 June 2011 was 6.3% (31 December 2010: 21%), based on the net debt of HK\$132 million (represented by indebtedness comprising bank and other borrowings, advances from a non-controlling shareholder of a subsidiary, net of cash and bank balances and bank deposits) to the equity attributable to owners of HK\$1,961 million plus the net debt of HK\$132 million as at 30 June 2011. The decrease in the ratio from 21% to 6.3% was mainly due to increase in cash balance contributed by the receipt of the instalment payments of the consideration from disposal of Tianhe Project and the pre-sale proceeds of Guiyang Project during the period. For the purpose of our assessment of the gearing position of the Group, indebtedness excludes deferred income of HK\$1,109 million that is the estimated net consideration for the disposal of Tianhe Project for which the gain and revenue will be recognised at the time when the associated costs relating to the performance of the obligations of the Company can be ascertained. The estimated timing of completion is in late 2013.

The current assets totaling HK\$1,878 million (31 December 2010: HK\$1,828 million) show a slight increase of HK\$50 million. They mainly comprise (i) the current portion of the consideration receivable for the disposal of Tianhe Project of HK\$150 million, (ii) bank deposits and cash balance totaling HK\$1,061 million (inclusive of restricted deposits of HK\$485 million to secure for guarantee extended for the money market loan facility). The current ratio is 1.39 to 1 which is relatively constant with the ratio of 1.47 to 1 as at 31 December 2010.

Borrowings and pledge of assets

To secure for banking facilities granted to operating subsidiaries for the financing of working capital and construction costs by a commercial bank in the mainland China, property interests in Tianyu Garden Phase II and interests in the works in progress and land of the Guiyang Project with an aggregate carrying value of HK\$1,007 million were mortgaged in favour of the lending bank. In addition, bank deposits, being cash received from property buyers, of approximately HK\$183 million as at 30 June 2011 were restricted for construction costs of properties under construction. To secure the back-to-back guarantees given by two mainland banks to a Hong Kong-based bank for the money market loan facility of US\$67.7 million, bank deposits of approximately HK\$585 million were placed in two bank accounts in mainland China.

Risk Management

Foreign Currency Risk

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in 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 money market loan in US dollars. Due to the steady appreciation of RMB against HK and US dollars during the period, a foreign exchange gain arises on consolidation of the assets and liabilities of the PRC subsidiaries, resulting in an exchange reserve of HK\$372 million as at 30 June 2011 that is added to the equity of the Group. Since the US and HK dollars are pegged with each other whilst RMB moves in gradual and upward trend against the US and HK dollars, the Group foresees no significant possible adverse exposure in foreign currency in the foreseeable future but appreciations in the exchange rates of RMB against HK and US 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.

Interest Rate Risk

The Group's exposure to interest rate risk primarily relates to the Group's restricted and pledged deposits, cash at bank included in cash and cash equivalents and bank and other borrowings with interests charged at floating rates. During the period ended 30 June 2011, given management's expectation of the increasing trend of interest rates, the Group by entering into an interest rate swap contract with a bank, fixed the base interest rate of the bank borrowings of US\$67.7 million (approximately HK\$526 million) at 0.75% per annum in order to hedge against the Group's future exposure to interest rate risk.

Contingent Liabilities

A subsidiary of the Group provides guarantees to the extent of approximately HK\$383 million as at 30 June 2011 in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the subsidiary is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the subsidiary is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.

Employees

To keep pace with the growth of the Group, the Group recruits more suitable staff in capable caliber to carry out the increasing tasks resulting from the expansion. As at 30 June 2011, other than the Executive Directors, the Group employed 166 staff (31 December 2010: 142 staff) for property development and central management. Employees are remunerated according to qualifications and experience, job nature and performance. Remuneration packages are aligned with job markets in the business territories.

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 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 team, both the roles of the chairman and chief executive officer of the Company are currently 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 Model Code 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 2011.

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.

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

Hong Kong, 5 August 2011