



天譽置業(控股)有限公司*
SKYFAME REALTY (HOLDINGS) LIMITED

(incorporated in Bermuda with limited liability)
(Stock Code: 59)



Interim Report

2006

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Corporate Information

DIRECTORS

Executive Directors:

Yu Pan, *Chairman*
Lau Yat Tung, Derrick, *Deputy Chairman*
Wong Lok
Wen Xiao Bing

Independent Non-executive Directors:

Choy Shu Kwan
Cheng Wing Keung, Raymond
Chung Lai Fong

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Cheung Lin Shun

AUDIT COMMITTEE

Choy Shu Kwan (*Chairman*)
Cheng Wing Keung, Raymond
Chung Lai Fong

REMUNERATION COMMITTEE

Chung Lai Fong (*Chairman*)
Choy Shu Kwan
Cheng Wing Keung, Raymond
Yu Pan

NOMINATION COMMITTEE

Yu Pan (*Chairman*)
Choy Shu Kwan
Lau Yat Tung, Derrick
Wong Lok

SHARE LISTING

Main Board of The Stock Exchange
of Hong Kong Limited, Stock Code: 59

INVESTOR RELATIONS

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PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

The Bank of Bermuda Limited
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Bermuda

BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

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Wanchai Hong Kong

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited

AUDITORS

BDO McCabe Lo Limited
Certified Public Accountants

LEGAL ADVISERS

Hong Kong Laws:

Vincent T.K. Cheung, Yap & Co.

Bermuda Laws:

Conyers Dill & Pearman

Management Discussion and Analysis

BUSINESS REVIEW

Results

During the period under review, the Group's turnover of continuing operations reached HK\$14 million, representing an increase of 420% when compared with the HK\$2.7 million in the corresponding period last year. Operation was turned around to a net profit of HK\$6.4 million (2005: loss of HK\$5.6 million). Basic earnings per share is HK0.83 cents (2005: loss per share of HK7.74 cents). The improvement was the result of the Group's strategy to streamline operation ending the loss-incurring businesses and had simultaneously brought in steady income flow of property development project management service income.

Property development business — Tianhe Road North Project

In December 2005, the Group completed a substantial transaction to acquire a 49% equity interest of the Tianhe Road North property development project with an updated investment cost of HK\$155 million. The 7,217 square meters Tianhe Road North property project is one of the few prime sites in the heart of the central business district of Guangzhou still available for development. The Group plans to build a top-notch serviced apartment plus a 5-star hotel on the site and expects the project to become a landmark in Guangzhou.

Project management business

The Group was the project manager of 2 property development projects in Guangzhou, the PRC. The contracts generated revenue of HK\$12.5 million accounting for 89% of the Group's total turnover. Other than the project management activities, the Group also carried out interior decoration works during the period. These streams of revenue help to strengthen the Group's cash flow and provide a constant earning potential.

Transfer and conversion of convertible note

On 16 February 2006, Grand Cosmos Holdings Limited, a company wholly owned by the Group's Chairman, Mr. Yu Pan, acquired the convertible note from the note holder and exercised the conversion right to convert the note into 181,818,181 shares of the Company. The conversion is a show of confidence of the major shareholder in the Group's prospects and has also fortified the financial position by enlarging the capital base of the Group.

PROSPECTS

Open offer

On 3 August 2006, the Group completed an open offer of 267,324,486 ordinary shares of HK\$0.01 each in the Company at HK\$0.90 per share in the proportion of 13 offer shares for every 40 existing shares held with 10 bonus warrants for every 13 offer shares taken up ("Open Offer") and raised a net proceed of approximately HK\$234.5 million. It plans to apply the proceed to acquire an indirect 51% interest in a sino-foreign cooperative joint venture enterprise in the PRC formed to develop the 106,000 square meters site at Zhoutouzui in Guangzhou, the PRC.

In connection with the Open Offer, a bonus issue of warrants was also made of 205,634,220 warrants attached with a subscription price of HK\$1.10 per share exercisable at any time during a two-year period ending 2 August 2008. The Group will receive net proceeds of about HK\$225 million upon the warrants being exercised in full.

Property development

Looking ahead, at the Chinese government's tightened macroeconomic austerity measures, the property market went through consolidation and resumed healthy development. The Group, however, will continue its prudent land reserve strategy and explore more premiere grade property projects with promising potentials in the PRC especially in Guangzhou.

(a) *Tianhe Road North Project*

The Tianhe Road North project will comprise a 5-star hotel, serviced apartments, parking spaces and related construction is scheduled for completion in 2009. It is envisaged that the Tian He district fire station which is situated on the subject site will be relocated within the second quarter of 2007 and that construction works will commence shortly afterwards in the third quarter 2007.

PROSPECTS *(Continued)*

Property development *(Continued)*

(b) Zhoutouzui Project

In July 2006, the Group entered into an acquisition agreement wherein the vendor conditionally agreed to sell sale shares, representing 51% of the issued share capital of Loyal Way (China) Group Limited (“Loyal Way”) and assign the sale debt at an aggregate consideration of not more than HK\$400 million. The principal activity of Loyal Way is the right in the development of a piece of land located at Zhoutouzui, Guangzhou, the PRC. It is expected that the acquisition transaction will be completed in December 2006 upon the issue of the land use right certificate.

The site of approximately 106,000 square meters is located at Zhoutouzui, Haizhu District, Guangzhou, the PRC. The defining characteristic of the site is its geographical supremacy as it is located opposite to the White Swan Hotel on the converging point of the three estuaries of the Pearl River. Intended to include sky-scraping structures, the Zhoutouzui project promises panoramic river view of the Pearl River. This second significant acquisition not only presented the Group with a valuable opportunity to explore the premiere grade property market in Guangzhou, but also increased the Group’s land reserve for future development.

In the current plan, the Zhoutouzui project will principally comprise luxury high rise condominium towers, residential apartments, serviced-residential apartments, 5-star hotel, community center and other ancillary facilities such as retail shopping mall, heritage museum, club house and underground parking spaces, etc. The above ground gross floor area is approximately 212,546 square meters. It is expected to obtain relevant construction permits in the second quarter of 2007 after which construction can begin. Pre-sale of the residential properties is scheduled for in around August 2008 and the project is expected to be partially completed and ready for move in by the end of 2009. The total development cost and other related expenses are estimated at approximately RMB2,148 million (equivalent to approximately HK\$2,084 million).

PROSPECTS *(Continued)*

Property development *(Continued)*

With ample experience in the PRC premiere grade property development markets, the management will guide the Group in growing its business. But, at the same time, it will monitor closely changes in the market to make sure that its investment decisions are in the best interest of the Company. In the long term, the Group will prudently explore other prime sites and develop more premiere quality property projects focusing in Guangzhou and other first tier cities in the PRC. The Group believes its extensive premiere grade property portfolio will bring in steady revenues to the Group and fruitful returns to shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

Capital structure and liquidity

As a result of the placing and rights issue of shares completed in 2005 bringing about a net proceed of approximately HK\$164 million, the Group's liquidity position was strengthened with a bank balance of approximately HK\$86.5 million at 30 June 2006. The current assets and current liabilities of the Group were approximately HK\$100.8 million and approximately HK\$2.4 million respectively and were accompanied with a decrease in the Group's gearing ratio (the ratio of total liabilities over total assets) from 23.1% to 0.9%. The Group's liabilities as at 31 December 2005 mainly consist of a convertible note in a face value of HK\$60 million that was fully converted into shares in February 2006. The conversion leads the Group virtually with a minimal liability position.

Bank borrowings and pledge of assets

As at 30 June 2006, the Group had pledged its 49% interests in Yaubond Limited, an associate of the Group engaged in the property development project at Tianhe Road North, to secure for warranties given by the Group for the appointment of a subsidiary as the property project manager. The Group had no bank borrowing as at 30 June 2006.

FOREIGN CURRENCY MANAGEMENT

The Group's major investment is the interest in an associate, Yaubond Limited, a subsidiary of which is engaged in property development activities in the PRC. The Group also contracts with its suppliers for goods and services that are denominated in Renminbi. The Group does not hedge its foreign currency risks as the rate of exchange between Hong Kong dollar and Renminbi is controlled within a narrow range. However, any permanent changes in foreign exchange rates in Renminbi may have an impact on the Group's results.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2006.

EMPLOYEES

As at 30 June 2006, including 4 executive directors, the Group employed 32 employees in Hong Kong and the PRC. The Group's staff costs amounted to approximately HK\$3.2 million for the six months ended 30 June 2006. Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions.

The Group is working aggressively to recruit additional staff and senior management of suitable calibre to cope with the Group's business expansion.

The board (the “Board”) of directors (the “Directors”) of Skyfame Realty (Holdings) Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2006, together with comparative figures for the corresponding period of 2005. The unaudited consolidated interim results have been reviewed by the external auditors, BDO McCabe Lo Limited, and the audit committee of the Company.

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited and restated)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations			
Turnover	2	14,043	2,700
Cost of services provided		(1,473)	—
		12,570	2,700
Gross profit		114	8
Administration expenses		(6,193)	(3,234)
Profit (loss) from operations	3	6,491	(526)
Finance income	4	1,311	—
Finance costs	4	(595)	(33)
Share of loss of associate		(3)	—
Profit (loss) before income tax		7,204	(559)
Income tax expenses	5	(775)	—
Profit (loss) for the period from continuing operations		6,429	(559)
Discontinued operations			
Loss for the period from discontinued operations	18(a)	—	(5,033)
Profit (loss) for the period attributable to equity holders of the Company		6,429	(5,592)
Dividends			
	6	Nil	Nil
Basic earnings (loss) per share			
— from continuing operations	7	HK0.83 cents	(HK0.77 cents)
— from discontinued operations		N/A	(HK6.97 cents)
— from continuing and discontinued operations		HK0.83 cents	(HK7.74 cents)

Condensed Consolidated Balance Sheet

As at 30 June 2006

	Notes	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Non-current assets			
Plant and equipment	8	1,702	163
Interest in associate	9	154,817	165,807
		156,519	165,970
Current assets			
Deposits paid on acquisition of equity interest in unlisted company		10,000	—
Prepayments, trade and other receivables	10	4,306	403
Cash and cash equivalents		86,493	83,747
		100,799	84,150
Current liabilities			
Trade and other payables	11	1,689	1,773
Income tax payable		735	66
		2,424	1,839
Net current assets		98,375	82,311
Total assets less current liabilities		254,894	248,281
Non-current liabilities			
Convertible note	12	—	55,087
Deferred tax liabilities		—	860
		—	55,947
Net assets		254,894	192,334
Capital and reserves			
Share capital	13	8,225	6,407
Reserves		246,669	185,927
Total equity attributable to equity holders of the Company		254,894	192,334

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

		Attributable to equity holders of the Company						
		Share capital	Share premium	Contributed surplus reserve	Convertible note equity reserve	Foreign exchange reserve	Retained profits/ losses (Accumulated)	Total
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Notes		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006		6,407	156,007	15,497	4,207	1	10,215	192,334
Exchange differences arising on consolidation of overseas subsidiary and net income recognised directly in equity		—	—	—	—	24	—	24
Net profit for the period		—	—	—	—	—	6,429	6,429
Total recognised income for the period		—	—	—	—	24	6,429	6,453
Conversion of convertible note 12		1,818	58,496	—	(4,207)	—	—	56,107
At 30 June 2006		8,225	214,503	15,497	—	25	16,644	254,894
At 1 January 2005								
— As previously reported		68,338	534,185	—	—	—	(593,049)	9,474
— Prior period adjustment 16		136	(1,576)	—	—	—	—	(1,440)
— As restated		68,474	532,609	—	—	—	(593,049)	8,034
Expenses incurred on issue of shares and net expenses recognised directly in equity		—	(495)	—	—	—	—	(495)
Net loss for the period		—	—	—	—	—	(5,592)	(5,592)
Total recognised expenses for the period		—	(495)	—	—	—	(5,592)	(6,087)
Issue of shares — share placing 13		13,550	8,130	—	—	—	—	21,680
At 30 June 2005, as restated		82,024	540,244	—	—	—	(598,641)	23,627

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited and restated)
	HK\$'000	HK\$'000
Net cash from operating activities	2,393	4,179
Net cash from investing activities	661	1,131
Net cash (used in) from financing activities	(331)	19,876
Net increase in cash and cash equivalents	2,723	25,186
Effects of change in foreign exchange rates	23	—
Cash and cash equivalents at beginning of the period	83,747	347
Cash and cash equivalents at end of the period	86,493	25,533
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	86,493	25,533

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2006

1. STATEMENT OF COMPLIANCE AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) have been prepared in accordance with the applicable requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34: Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

These Interim Financial Statements should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

The accounting policies and methods of computation used in the preparation of these Interim Financial Statements are consistent with those used in the annual financial statements for the year ended 31 December 2005.

2. TURNOVER AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Continuing operations		
Property development project management and interior decoration service fee	14,043	2,700
Discontinued operations (Note 18(b))		
Web design and development service fee	—	450
Rental income	—	7
	—	457
	14,043	3,157

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The businesses based upon which the Group reports its primary segment information are as follows:

Continuing operations

- Project management segment refers to the provision of advisory and management services rendered for property development projects and interior decoration projects;
- Property development segment refers to the development and sale of properties;

Discontinued operations

- Investment holding segment refers to the investment in securities and properties;
- Online and telecommunication segment refers to the provision of internet services and telecommunication services and products; and
- Trading and financial advisory segment refers to the general trading and the provision of financial advisory services.

2. TURNOVER AND SEGMENT INFORMATION (Continued)

The Group's revenue and results by business segment for the six months ended 30 June 2006, together with the comparative figures for the corresponding period of 2005, are presented below:

Business segments

	Continuing operations			Discontinued operations				Consolidated
	Project management HK\$'000	Property development HK\$'000	Sub-total HK\$'000	Online and telecommuni- cation HK\$'000	Trading and financial advisory HK\$'000	Investment holding HK\$'000	Sub-total HK\$'000	
<i>For the six months ended 30 June 2006 (Unaudited)</i>								
Turnover	14,043	—	14,043	—	—	—	—	14,043
Segment results	10,256	(12)	10,244	—	—	—	—	10,244
Unallocated operating income and expenses			(3,753)				—	(3,753)
Profit from operations			6,491				—	6,491
Finance income			1,311				—	1,311
Finance costs			(595)				—	(595)
Share of loss of associate		(3)	(3)				—	(3)
Profit before income tax			7,204				—	7,204
Income tax expenses			(775)				—	(775)
Profit for the period			6,429				—	6,429
<i>For the six months ended 30 June 2005 (Unaudited and restated)</i>								
Turnover	2,700	—	2,700	450	—	7	457	3,157
Segment results	2,688	—	2,688	130	(3,837)	(1,406)	(5,113)	(2,425)
Unallocated operating income and expenses			(3,214)				150	(3,064)
Loss from operations			(526)				(4,963)	(5,489)
Finance costs			(33)				—	(33)
Loss before income tax			(559)				(4,963)	(5,522)
Income tax expenses			—				—	—
Loss on disposal of subsidiaries			—				(70)	(70)
Loss for the period			(559)				(5,033)	(5,592)

3. PROFIT (LOSS) FROM OPERATIONS

Profit (loss) from operations for the period has been arrived at after charging:

	Continuing operations		Discontinued operations (Note 18 (b))		Consolidated	
	Six months ended 30 June					
	2006 (Unaudited) HK\$'000	2005 (Unaudited) and restated HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) and restated HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) and restated HK\$'000
Cost of services provided	1,473	—	—	280	1,473	280
Staff costs, including directors' remuneration:						
— Basic salaries and other benefits	3,076	1,360	—	52	3,076	1,412
— Pension scheme contributions	136	19	—	—	136	19
	3,212	1,379	—	52	3,212	1,431
Auditors' remuneration						
— Under-provision for prior year	80	120	—	—	80	120
— Current year	290	250	—	—	290	250
	370	370	—	—	370	370
Depreciation of plant and equipment	99	82	—	—	99	82
Minimum lease payments under operating lease in respect of land and buildings	240	—	—	—	240	—
Impairment losses on promissory note receivable and account receivable	—	—	—	4,472	—	4,472
Fair value losses (including loss on disposal) on financial assets at fair value through profit or loss	—	—	—	194	—	194

4. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Continuing operations:		
Finance income:		
Bank interest income	1,311	—
Finance costs:		
Interest on convertible note wholly repayable within five years	595	—
Interest on short-term loan from a director	—	13
Interest on other borrowings	—	20
	595	33

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Continuing operations:		
Provision for current tax for the period:		
— Hong Kong profits tax	400	—
— outside Hong Kong	479	—
Deferred tax	(104)	—
Total income tax expenses	775	—

5. INCOME TAX EXPENSES *(Continued)*

Hong Kong profits tax is calculated at 17.5% (six months ended 30 June 2005: 17.5%) on the estimated assessable profits for the period (six months ended 30 June 2005: Nil).

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.

6. DIVIDENDS

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

7. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share

From continuing and discontinued operations

The calculation of basic earnings (loss) per share is based on the profit attributable to ordinary equity holders of the Company of HK\$6,429,000 (six months ended 30 June 2005 (restated): loss of HK\$5,592,000) and the weighted average of 772,310,882 (six months ended 30 June 2005 (restated): 72,266,100) ordinary shares in issue during the period, as adjusted to reflect the effect of share consolidation and rights issue during the periods.

From continuing operations

The calculation of basic earnings (loss) per share from continuing operations attributable to ordinary equity holders of the Company is based on the profit of HK\$6,429,000 (six months ended 30 June 2005 (restated): loss of HK\$559,000) and the weighted average number of ordinary shares mentioned above.

7. EARNINGS (LOSS) PER SHARE *(Continued)*

Basic earnings (loss) per share *(Continued)*

From discontinued operations

The calculation of basic earnings (loss) per share from discontinued operations attributable to ordinary equity holders of the Company is based on the profit and loss of HK\$Nil (six months ended 30 June 2005 (restated): loss of HK\$5,033,000) and the weighted average number of ordinary shares mentioned above.

Diluted earnings (loss) per share

Diluted earnings (loss) per share has not been calculated as there were no diluting events existing during the periods.

8. PLANT AND EQUIPMENT

During the current period, the Group acquired plant and equipment at the total cost of HK\$1,637,000.

9. INTEREST IN ASSOCIATE

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Share of net assets other than goodwill	151,125	79,223
Goodwill	3,692	3,692
Loan to associate <i>(Note a)</i>	—	82,892
	154,817	165,807

9. INTEREST IN ASSOCIATE (Continued)

Notes:

(a) The loan to associate was unsecured, interest-free and on 28 June 2006 the outstanding balance of HK\$71,905,000 was converted as share capital of the associate.

(b) Details of the unlisted associate are as follows:

Name of associate	Place of incorporation/ operation	Particulars of issued and paid-up capital	Attributable equity	
			interest indirectly held by the Company	Principal activity
Yaubond Limited	British Virgin Islands/ Hong Kong	100 ordinary shares of US\$1 each	49%	Investment holding

(c) Financial information of the associate is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Total assets	407,632	429,913
Total liabilities	(99,214)	(268,234)

The associate has contributed no revenue and incurred a loss of approximately HK\$3,000 attributable to the Group during the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

(d) Pledge of assets

As at 30 June 2006, the Group has pledged its shares in the associate, representing 49% interest in the associate, in favour of the holder of the other 51% interest in the associate to secure for the warranties given by the Group for the performance of a subsidiary of the Group, United Prime Limited, as the property project manager of the associate.

10. PREPAYMENTS, TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 60 days to its trade customers. The following includes an ageing analysis of trade receivables at the reporting date:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Trade receivables, aged 0 — 30 days	1,155	—
Deposits, prepayments and other receivables	3,151	403
	4,306	403

11. TRADE AND OTHER PAYABLES

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
0 — 30 days	202	—
31 — 90 days	22	—
Total trade payables	224	—
Other payables and accruals	1,465	1,773
	1,689	1,773

12. CONVERTIBLE NOTE

On 16 February 2006, Grand Cosmos Holdings Limited, a company wholly owned by the Group's chairman, Mr. Yu Pan, acquired the convertible note in a face value of HK\$60 million from the note holder and on 20 February 2006 exercised the conversion right to convert the note into 181,818,181 ordinary shares of HK\$0.01 each in the Company at the conversion price of HK\$0.33 per share. No convertible note was outstanding at 30 June 2006.

13. SHARE CAPITAL

	Notes	2006		2005	
		Number of shares '000	Nominal value of share capital HK\$'000	Number of shares '000	Nominal value of share capital HK\$'000
Ordinary shares of HK\$0.01 each					
Authorised:					
At beginning and end of the period		30,000,000	300,000	30,000,000	300,000
Issued and fully paid:					
At beginning of the period					
— As previously reported		640,719	6,407	6,833,788	68,338
— Prior period adjustment	16	—	—	13,585	136
— As restated		640,719	6,407	6,847,373	68,474
Issue of shares — share placing		—	—	1,355,000	13,550
Conversion of convertible note	12	181,818	1,818	—	—
At end of the period		822,537	8,225	8,202,373	82,024

14. RELATED PARTY TRANSACTIONS

Pursuant to a deed of appointment entered into by the Company and its subsidiary, United Prime Limited, with an associate of the Company, Yaubond Limited, the performance of United Prime Limited, the project manager of a property development project held by Yaubond Limited, was guaranteed by the Company which was counter-indemnified by Mr. Yu Pan, the director of the Company, in favour of the Company. Mr. Yu Pan is also one of the directors of the associate of the Company.

In connection with United Prime Limited acting as the project manager of the property development project held by Yaubond Limited, a project management fee of RMB4,200,000 (approximately HK\$4,080,000) was charged to a subsidiary of Yaubond Limited, Guangzhou Huan Cheng Real Estate Development Company Limited, for the six months ended 30 June 2006.

A lease agreement was entered into between a subsidiary of the Company, Guangzhou Yu Jun Consulting Service Company Limited (“Yu Jun”) and Guangzhou Chuang Yu Property Development Company Limited (“Chuang Yu”) for the lease of office premises owned by Chuang Yu for a term of one year expiring on 31 October 2006 at a monthly rental of RMB41,000. In addition, Guangzhou Tian Yu Property Management Company Limited (“Tian Yu Property”) has charged Yu Jun the building management and air-conditioning expenses. Mr. Yu Pan is a major shareholder of Chuang Yu and Tian Yu Property. Rental of RMB249,000 (approximately HK\$240,000) and building management fee and air-conditioning charges of RMB249,000 (approximately HK\$240,000) were charged to Yu Jun for the six months ended 30 June 2006.

The Group occupied during the period an office as its principal place of business in Hong Kong free of rental and all other outgoings relating to the office premises. The existing tenant of the premises is Yue Tian Development Limited (“Yue Tian”) of which 29% equity interest is held by Mr. Yu Pan who is also a director of Yue Tian.

15. EVENTS AFTER THE BALANCE SHEET DATE

On 3 August 2006, the Group completed an open offer of 267,324,486 ordinary shares of HK\$0.01 each in the Company at HK\$0.90 per share in the proportion of 13 offer shares for every 40 existing shares held with 10 bonus warrants for every 13 offer shares taken up (“Open Offer”) and has raised a net proceed of approximately HK\$234.5 million. It planned to apply the net proceed to acquire an indirect 51% equity interest in a sino-foreign cooperative joint venture enterprise in the PRC (“PRC JV”) formed to be engaged in property development at Zhoutouzui, Guangzhou, the PRC.

In connection with the Open Offer, a bonus issue of warrants was also made of 205,634,220 warrants attached with a subscription price of HK\$1.10 per share exercisable at any time during a two-year period ending 2 August 2008. The Group will receive net proceeds of about HK\$225 million upon the warrants being exercised in full.

On 6 July 2006, the Group entered into an acquisition agreement wherein the vendor, Mr. Luo Dong Liang, conditionally agreed to sell 51 shares of US\$1 each in the issued share capital of Local Way (China) Group Limited (“Loyal Way”) representing 51% of the issued share capital of Loyal Way, and assign the total shareholders’ loans contributed by the vendor in accordance with his 51% shareholding interest in Loyal Way on the acquisition completion date, at an aggregate consideration of not more than HK\$400 million. Loyal Way is engaged in investment holding and holds 100% equity interest in the PRC JV. It is expected that the acquisition transaction will be completed in December 2006 upon the issue of the land use right certificate.

16. PRIOR PERIOD ADJUSTMENT

In 2002, an aggregate amount of HK\$2,160,000 of convertible bonds were converted into 40,754,714 conversion shares (“Conversion Shares”) without the bondholders’ consent. In 2004, the Company paid HK\$720,000, being the par value of one of the convertible bonds, to one of the bondholders to settle the wrongful conversion of 13,584,905 Conversion Shares. Share capital and share premium of HK\$136,000 and HK\$584,000 were then reversed in 2004 respectively. However, the relevant shares wrongly issued should not have been cancelled until the approval of the Supreme Court of Bermuda was obtained in November 2005. Accordingly, a prior period adjustment was recorded in the six months ended 30 June 2005 to rectify the error. The Company’s issued and paid-up share capital and number of issued shares were increased by HK\$136,000 and 13,584,905 respectively as at 1 January 2005. In addition, the Group’s share premium as at 1 January 2005 was decreased by HK\$1,576,000 to retrospectively adjust for the aggregate amount of all the convertible bonds in subject and the related premium arising from the wrongful conversion and to restate the net loss for the six months ended 30 June 2005 by a reversal of provision for losses on litigation of HK\$2,160,000. Other payables as at 1 January 2005 were increased by HK\$1,440,000.

17. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the prior period adjustment (*Note 16*).

18. DISCONTINUED OPERATIONS

During the six months ended 30 June 2005, the Group entered into sale and purchase agreements to dispose of certain of its subsidiaries which carried out businesses in online and telecommunication services, general trading and securities and property investment activities.

- (a) The loss for the period from the discontinued operations is analysed as follows:

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss of discontinued operations for the period	—	(4,963)
Loss on disposal of subsidiaries	—	(70)
	<u>—</u>	<u>(5,033)</u>

- (b) An analysis of the results of the discontinued operations, which have been included in the condensed consolidated income statement, is as follows:

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	2	—	457
Cost of services provided		—	(280)
Gross profit		—	177
Other income		—	150
Administration expenses		—	(624)
Other operating expenses		—	(4,666)
Loss before income tax	3	—	(4,963)
Income tax expenses		—	—
Loss for the period		<u>—</u>	<u>(4,963)</u>

- (c) No tax charge or credit arose from loss on disposal of subsidiaries.

Independent Review Report



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傳真:(八五二)二八一五〇〇〇二

To the Board of Directors of Skyfame Realty (Holdings) Limited

(incorporated in Bermuda with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 8 to 25.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Company’s directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

BDO McCabe Lo Limited

Certified Public Accountants

Au Yeung Shiu Kau Peter

Practising Certificate Number P02289

Hong Kong, 21 August 2006

Other Information

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2006 (six month ended 30 June 2005: Nil).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the interests of the directors and chief executive in the share capital of the Company or its associated corporation (within the meaning of Part XV of Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

Name of director	Company/ Associated corporation	Capacity	Number of ordinary shares (long position)	Approximate shareholding percentage
Yu Pan	Company	Interest of a controlled corporation	670,526,985 shares (<i>Note 1</i>)	61.52 (<i>Note 2</i>)
Yu Pan	Grand Cosmos Holdings Limited ("Grand Cosmos")	Beneficial owner	10,000 shares of US\$1 each	100

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

Notes:

1. These Shares comprise (i) 572,236,485 existing Shares held by Grand Cosmos; (ii) 55,555,500 Shares undertaken to be taken up by Grand Cosmos pursuant to the underwriting agreement entered into between the Company, Grand Cosmos Holdings Limited and Taifook Securities Company Limited dated 2 June 2006 ("Underwriting Agreement"); and (iii) 42,735,000 bonus warrants to be issued to Grand Cosmos upon completion of the Open Offer. The entire issued share capital of Grand Cosmos is held by Mr. Yu Pan.
2. For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,089,861,385 Shares in issue immediately after completion of the Open Offer.

Save as disclosed above, as at the 30 June 2006, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) to be notified to the Company and the Stock Exchange; or (ii) pursuant to Section 352 of the SFO to be entered in the register referred to therein, or (iii) pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

SUBSTANTIAL SHAREHOLDERS (Continued)

(a) Long position in the Shares and underlying Shares

Name of Shareholder	Capacity	Number of Shares	Approximate shareholding percentage (Note 3)
Grand Cosmos	Beneficial owner	670,526,985 (Note 1)	61.52
Taifook Securities Company Limited ("Taifook Securities")	Beneficial owner	374,668,206 (Note 2)	34.38
Taifook Finance Company Limited	Interest of a controlled corporation	374,668,206 (Note 2)	34.38
Tai Fook (BVI) Limited	Interest of a controlled corporation	374,668,206 (Note 2)	34.38
Taifook Securities Group Limited	Interest of a controlled corporation	374,668,206 (Note 2)	34.38
PMA Capital Management Ltd.	Investment manager	184,000,000	16.88
Diversified Asian Strategies Fund	Beneficial owner	99,194,000	9.10
PMA Asian Opportunities Fund	Beneficial owner	71,300,000	6.54

SUBSTANTIAL SHAREHOLDERS (Continued)

(a) Long position in the Shares and underlying Shares (Continued)

Name of Shareholder	Capacity	Number of Shares	Approximate shareholding percentage (Note 3)
Leader Gain Limited	Beneficial owner	66,666,666 (Note 4)	6.12
Ms. Azuma Sarina ("Ms. Azuma")	Interest of a controlled corporation	66,666,666 (Note 4)	6.12
Sunny Billion Holdings Limited ("Sunny Billion")	Person having a security	66,666,666 (Note 5)	6.12

Notes:

- These Shares comprise (i) 572,236,485 existing Shares held by Grand Cosmos; (ii) the 55,555,500 Shares undertaken to be taken up by Grand Cosmos pursuant to the Underwriting Agreement; and (iii) 42,735,000 bonus warrants to be issued to Grand Cosmos upon completion of the Open Offer.
- These Shares comprise (i) 211,768,986 Shares agreed to be underwritten by Taifook Securities pursuant to the Underwriting Agreement; and (ii) 162,899,220 bonus warrants to be issued to Taifook Securities upon completion of the Open Offer. The entire issued share capital of Taifook Securities is held by Taifook Finance Company Limited, the entire issued share capital of which is held by Tai Fook (BVI) Limited, a wholly-owned subsidiary of Taifook Securities Group Limited. Each of Taifook Finance Company Limited, Tai Fook (BVI) Limited and Taifook Securities Group Limited is deemed to be interested in the Shares in which Taifook Securities is interested by virtue of the SFO.
- For the purposes of this section, the shareholding percentage is calculated on the basis of 1,089,861,385 Shares in issue immediately after completion of the Open Offer.

SUBSTANTIAL SHAREHOLDERS (Continued)

(a) Long position in the Shares and underlying Shares (Continued)

Notes:

- Ms. Azuma beneficially owns the entire interest in Leader Gain Limited which owns 66,666,666 Shares.
- The 66,666,666 Shares were pledged in favour of Sunny Billion by Leader Gain Limited to secure for the performance of obligations of Ms. Azuma under an agreement entered into by Ms. Azuma with Sunny Billion pursuant to which Ms. Azuma disposed of the entire interest in the associate of the Company to Sunny Billion.

(b) Short position in the Shares and underlying Shares

Name of Shareholder	Capacity	Number of Shares	Approximate shareholding percentage (Note 1)
Taifook Securities	Beneficial owner	325,538,461	29.87
Taifook Finance Company Limited	Interest of a controlled corporation	325,538,461 (Note 2)	29.87
Tai Fook (BVI) Limited	Interest of a controlled corporation	325,538,461 (Note 2)	29.87
Taifook Securities Group Limited	Interest of a controlled corporation	325,538,461 (Note 2)	29.87

SUBSTANTIAL SHAREHOLDERS *(Continued)*

(b) Short position in the Shares and underlying Shares *(Continued)*

Notes:

1. For the purposes of this section, the shareholding percentage is calculated on the basis of 1,089,861,385 Shares in issue immediately after completion of the Open Offer.
2. The entire issued share capital of Taifook Securities is held by Taifook Finance Company Limited, the entire issued share capital of which is held by Tai Fook (BVI) Limited, a wholly-owned subsidiary of Taifook Securities Group Limited. Each of Taifook Finance Company Limited, Tai Fook (BVI) Limited and Taifook Securities Group Limited is deemed to be have short position in Shares or underlying shares of the Company by virtue of the SFO.

As at 30 June 2006 and so far as known to the Directors or chief executive of the Company, no other person (not being a Director or chief executive of the Company) had any interests or short positions in Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Division 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

SHARE OPTIONS

During the period, the Company did not grant any options to subscribe for the Company's shares in the share option scheme adopted by the Company.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2006 interim report, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except that under code provision A2.1, the roles of chairman and chief executive officer was not separated and performed by the same individual.

CORPORATE GOVERNANCE *(Continued)*

In pace with the business development and growth of the Group, the Group currently maintains a small but efficient team in the daily operations of the Group. 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 team serves sufficiently enough the need of the Group. The Board will, nonetheless, review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to-day management team to ensure a proper balance of power and authority within the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

The Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities during the six months ended 30 June 2006.

AUDIT COMMITTEE

The 2006 interim report has been reviewed by the Company's Audit Committee and external auditors of the Company.

By order of the Board

Yu Pan
Chairman

Hong Kong, 21 August 2006