



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
2007

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Corporate Information

Directors

Executive Directors:

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

Non-executive Director:

Jerry Wu

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

2008 Warrant Listing

Main Board of The Stock Exchange of Hong
Kong Limited, Stock Code: 584

Website

www.sfr59.com

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Investor Relations

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Registered Office

Clarendon House
 2 Church Street
 Hamilton HM 11 Bermuda

Principal Share Registrars and Transfer Office

The Bank of Bermuda Limited
 6 Front Street
 Hamilton HM 11 Bermuda

Branch Share Registrars and Transfer Office

Tricor Abacus Limited
 26th Floor Tesbury Centre
 28 Queen's Road East
 Wanchai Hong Kong

Principal Bankers

Agricultural Bank of China
 Bank of China 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 recorded total turnover of HK\$11.5 million, representing a drop of 18% when compared with HK\$14.0 million in the corresponding period last year. The decrease in turnover was caused by the Group's shifting focus from solely a property development project manager to a property developer and thus the former activities have been slowed down. While the new property development business is at its start-off stage and did not readily generate any turnover during the period, the Group had captured low level revenue from the operation of the hotel, namely The Westin Guangzhou, which was acquired in May, 2007 and had its soft opening in mid-May, 2007.

The Group showed a loss from operation of HK\$22.7 million. The result of the Group during the period was further adversely impacted by large issue costs incurred in the issue of convertible notes of HK\$51.0 million and fair value adjustments amounting to HK\$28.6 million for derivative liabilities caused by the convertible notes and convertible preference shares issued to satisfy acquisition costs. Basic loss per share is HK9.82 cents (2006: basic earnings per share is HK0.75 cents).

Issue of US\$200 million Convertible Notes

On 2 March 2007, the Group entered into a note purchase agreement with six investors in relation to the issue and subscription of the convertible notes in the aggregate principal amount of US\$200 million (or approximately HK\$1,562.4 million). The investors included renowned financial institutions such as Merrill Lynch International and Lehman Brothers Commercial Corporation Asia Limited, which demonstrated their vote of confidence in the Group's business prospects.

The issue was completed and the convertible notes were issued on 4 May 2007. The issue of the convertible notes was a milestone for the Group in accelerating the momentum of its property development and investment business. With the net proceeds of approximately HK\$1,505 million from the issue, the Group was provided with funds required for major acquisitions including The Westin Guangzhou and its office annex (named as "Skyfame Tower") and the Zhoutouzui Project, which is a site having an area of approximately 106,273 square metres and located in Haizhu District in the heart of Guangzhou City. Upon completion of these acquisitions, the Group is well prepared to move its focus onto property development business.

Management Discussion and Analysis

Business Review *(Continued)*

Property Development Business

(a) Zhoutouzui Project

During the review period, the Group further increased its equity stake in the Zhoutouzui Project to 100%. Opposite to the White Swan Hotel, the Zhoutouzui site is located on the converging point of the three estuaries of the Pearl River and commands panoramic view of the Pearl River. It is among the few prime sites still available for development in the metropolitan area of Guangzhou.

With a gross floor area of approximately 241,000 square metres, the Zhoutouzui Project principally entails the development and construction of high rise condominium towers with residential apartments, serviced-apartments, a community centre and other ancillary facilities such as a shopping mall, a heritage museum, a state of the art club house and underground parking spaces.

The project is reaching the final stage of obtaining the government's approval of the plan for development. The issue of the land use right certificate is expected before the end of 2007.

(b) Tian He North Project

Following the acquisition of 49% of the issued share capital in Yaubond Limited ("Yaubond") in December 2005, the Group completed in July 2007 the acquisition of the remaining 51% interest in Yaubond which indirectly owns 100% equity interest in a prime site along Tianhe North Road in Guangzhou Tianhe central business district. The project has a site area of approximately 7,200 square metres and a development site area of approximately 6,057 square metres, which can be developed into a comprehensive development with a total gross floor area of over 100,000 square metres.

The Tian He North Project is located in the heart of the central business district of Guangzhou. The Group plans to build a top-notch service apartment on the site and expects the project to become a landmark in Guangzhou. The site is currently in the process of site clearance and relocation of existing structures which is targeted to be completed in early 2008. Construction will commence upon clearance of the site with target completion by 2010.

Management Discussion and Analysis

Business Review *(Continued)*

Hotel Operation Business

The Westin Guangzhou

On 4 May 2007, the Group completed the acquisition of the entire interest in the hotel and Skyfame Tower, comprising a total gross floor area of approximately 137,315 square metres.

Located in Tianhe, the heart of the central business district of Guangzhou, the hotel houses the first truly international five star hotel in the heart of the central business district in Guangzhou which comprises a 65,000-square-metre hotel in one tower, featuring 448 deluxe rooms and suites together with an over 3,300-square-metre spa, the largest in the city centre of Guangzhou, for its privileged guests. Among the five restaurants and bars are a Latin restaurant featuring live entertainment and a Cuban Cigar Lounge, and an upscale rooftop Italian restaurant and lounge boasting stunning city views. The hotel also houses a variety of function and meeting rooms to cater for conferences or events.

The hotel had its soft opening in May 2007 with the occupancy rates progressing satisfactorily. The grand opening of the hotel is scheduled in October 2007.

Property Investment Business

(a) Skyfame Tower

Skyfame Tower, consisting of 45,000 square metre A-graded offices, 420 car parks and a 7,200 square metre shopping arcade, will have its grand opening at the same time as The Westin Guangzhou. Leasing has also started and the interested and committed tenant profile includes consulates and renowned multinational companies.

(b) Tianyu Garden Phase 2

The Group's acquisition of the Tianyu Garden Phase 2 at a prime location in Tianhe district, Guangzhou, was completed in July 2007. The property, completed in 2001, comprises the second, fifth, sixth floors and rooms 402 and 403 on the fourth floor of the commercial podium of Tianyu Garden Phase 2, together occupying a total gross floor area of approximately 21,161 square metres.

Management Discussion and Analysis

Business Review *(Continued)*

Property Investment Business *(Continued)*

(b) Tianyu Garden Phase 2 (Continued)

At the date of the report, the property is approximately 72.5% occupied, with remaining areas under serious negotiations for tenancies. Lease terms of the units already committed range from 2 to 10 years. Tenants include a consulate and multinational corporations.

Prospects

Looking ahead, the robust economy and rapid urbanization in the PRC will continue to fuel demand for all segments of the property market. Although the Chinese government has tightened austerity measures, the market is expected to continue to boom while industry consolidation may accelerate, which will in turn ensure its healthy development. With a clear focus in the property business, the Group will continue its prudent land reserve strategy and explore more premium grade property projects with promising potentials in the PRC, especially in Guangzhou. Meanwhile, the Group is negotiating seriously with potential vendors and is targeting to acquire one or two additional projects in the city of Guangzhou that complement the Group's business strategy. If the negotiation is crystallised, the management will plan to finance the acquisitions by suitable financing means that will strike a proper balance between debt and equity.

The Group is optimistic about the outlook for the second half of the year. The Group's recent issue of convertible notes has accelerated the pace of its successful acquisitions of quality property projects. The Westin Guangzhou, the Group's flagship property, is having its grand opening in October 2007. The hotel is expected to capitalize on the upcoming annual Canton Fair in October which is set to attract a huge number of visitors from around the world.

The Group is also confident of the long term prospects of the project given the fast growth of Guangzhou's office, retail, hospitality and complementary sectors such as conferences and exhibitions. Demand for upscale business class international hotels and Grade A offices will grow as more business and international travelers visit the city. This will help boost the performance of the Group's property investment business. Currently, upon completion of the acquisition in this July, Tianyu Garden Phase 2 starts to bring in immediate contribution to the Group in terms of cash flows and earnings. Capturing the prestigious location and the approaching grand opening of Skyfame Tower and The Westin Guangzhou which are adjacent to Tianyu Garden Phase 2 the two properties will bring in a stable source of recurring income to the Group.

Management Discussion and Analysis

Prospects *(Continued)*

On the property development front, the Group's development projects at Zhoutouzui and Tianhe North Road, both quality projects located at prime locations in Guangzhou with high earnings potential, are expected to bring handsome returns to the Group in the future. Building on the experience and expertise in the local property market, the Group will continue to focus its property business on Guangzhou in the medium term.

Going forward, the Group will monitor closely changes in the market and adopt a prudent approach towards future expansion. In the long term, the Group will prudently explore other prime sites and develop more premium quality property projects in the PRC. The Group believes its quality property portfolio will bring in steady revenue to the Group and fruitful returns to shareholders.

Liquidity and Financial Resources

Capital structure and liquidity

To fund the acquisitions of 71% equity interest in the Westin Project and 49% interest in Zhoutouzui, the Company raised a net proceed of HK\$1,505 million from issue of US\$200 million convertible notes in cash. The convertible notes bear a 4% per annum coupon with a maturity of 6 years and an annual yield-to-maturity of 15%. The notes are convertible for ordinary shares of the Company at an initial conversion price of HK\$1.35 per share which is subject to a reset mechanism that is geared to the share price performance. In the acquisition of the 29% interest in the Westin Project that was held by the Company's director and controlling shareholder, Mr. Yu Pan, convertible preference shares of HK\$257 million ("CPS") were issued to his associate. The CPS is non-interest bearing, non-redeemable and convertible into ordinary shares of the Company subject to the same initial conversion price and reset mechanism as the convertible notes. The derivative components embedded in the convertible notes and CPS are presented as financial derivative liabilities which are to be revalued on the balance sheet date at fair values. On 30 June 2007, the derivative liabilities of convertible notes and CPS were respectively revalued at HK\$1,415 million and HK\$27 million, giving rise to respective fair value losses of HK\$28 million and HK\$0.5 million that were charged to the consolidated income statement for the period.

In addition to the convertible notes and CPS that were issued to pay for the acquisitions completed during the period, there is also a balance of consideration of HK\$64 million owed to the vendor of the 51% equity interest in Zhoutouzui Project, the transaction of which was completed in 2006.

Management Discussion and Analysis

Liquidity and Financial Resources *(Continued)*

Capital structure and liquidity *(Continued)*

The acquisition of the Westin Project had led to the Group's taking up of liabilities as at the balance sheet date for outstanding construction costs of HK\$73 million and a commercial bank loan of a 8-year duration for HK\$719 million which is used to finance the construction costs payable and working capital needs of the Westin Project.

The building cost of The Westin Guangzhou of HK\$688 million was presented as property held for hotel operation. The long-term portion of lease payments of HK\$303 million was paid for the Skyfame Tower and The Westin Guangzhou. Building cost of Skyfame Tower amounting to HK\$508 million and acquisition costs paid for the Zhoutouzui Project of HK\$744 million are all classified as properties under development under non-current assets. Also included in non-current assets are interest in the 49%-held associate of HK\$164 million in respect of the Tian He North Project (which becomes a wholly-owned subsidiary following the completion of the acquisition in July, 2007) and goodwill of HK\$473 million arising from those acquisitions which were completed during the period and funds of HK\$299 million reserved for interests payable to convertible noteholders and consideration payable for the acquisition of the entitlements of Zhoutouzui project held by a Sino joint venture partner.

As at 30 June 2007, the Group held cash resources totalling HK\$465 million of which US\$46 million, equivalent to HK\$362 million, is being held in escrow accounts for reserve of interest payable to the convertible noteholders and proceed scheduled for the acquisition of the entitlement of Guangzhou Port Group Co., Limited, a cooperative joint venture partner, in the Zhoutouzui Project. This acquisition is well expected to take place in the second half of the financial year. The working capital position of the Group is strengthened as a result of the bank balances made available from the proceeds of the convertible notes. Despite the lowering of the current ratio to 2.00 (2006: 9.64), the Group's unrestricted cash balance was increased to HK\$103 million as at 30 June 2007 (2006: HK\$45 million).

Management Discussion and Analysis

Liquidity and Financial Resources *(Continued)*

Capital structure and liquidity *(Continued)*

The gearing ratios, based on the total liabilities to total assets, at the balance sheet dates as at 2007 and 2006 are 76.1% and 43.2% respectively. The rises in assets and liabilities are results of the expansions undergone since the last reporting date and such impact in gearing ratio is explained by the fact that financing for such expansions had been made by larger portion of debt than equity. Having considered the long term development and the potential earnings from the projects that will outweigh the interest costs and the impact of the dilution caused by the derivatives on earning per share, the management considers the current gearing position is acceptable to the Group. The management believes that the gearing level will be improved and strengthened when the development projects and the investment properties start to realise earnings.

Borrowings and pledge of assets

To secure for the convertible notes, cash in accounts totalling US\$46 million and shares of certain intermediate holding companies of the property developing subsidiaries of the Group were charged in favour of the security trustee acting for the convertible noteholders. In addition, mortgages of ownership interests in The Westin Guangzhou and the Skyfame Tower were made in favour of a commercial bank incorporated in the PRC for general banking facilities of RMB800 million granted to a subsidiary. As at 30 June 2007, a total of HK\$719 million had been drawn down.

Foreign Currency Management

The Group's property development activities are conducted in the PRC. The Group has contracts with suppliers for goods and services that are denominated in Renminbi ("RMB"). The US\$200 million convertible notes are denominated in US dollars which is pegged with Hong Kong dollars. The exchange rate between RMB, the Group's functional currency, and Hong Kong dollar is controlled within a narrow range and the expected fluctuation is not material. In view of the foreseeable impact of exchange fluctuations which are to be light, the Group does not hedge against its foreign currency risks. Any permanent changes in exchange rates in RMB for Hong Kong dollars and changes in the peg system of US dollars with Hong Kong dollars may have impact on the Group results. The management will prudently monitor its foreign exchange risks from time to time.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2007.

Management Discussion and Analysis

Material Acquisitions During the Period

During the period, the Group completed the acquisitions of certain subsidiaries, details of which are as follows:

- (a) On 2 March 2007, the Group entered into two separate agreements with (a) a subsidiary of Poly (Hong Kong) Investments Limited (“Poly HK”) which was a substantial shareholder of a subsidiary of the Company, and an independent third party, and (b) Wise Gain Investment Limited, a company wholly-owned by Mr. Yu Pan. Both agreements were for the acquisition of the entire equity interest in and shareholders’ loans of Yue Tian Development Limited and its wholly-owned subsidiary incorporated in the PRC (the “Yue Tian Group”). The total consideration of the two agreements amounted to approximately HK\$887 million. The activity of the Yue Tian Group is the development of a property, comprising a hotel and office tower, that situates at the Tianhe District, Guangzhou (the “Westin Project”). The acquisition was completed on 4 May 2007.

The acquisition of the Westin Project was satisfied by approximately HK\$630 million in cash, which was financed by the proceeds of the convertible notes, and the issue of convertible preference shares to Mr. Yu’s associate at a face value of approximately HK\$257 million.

- (b) On 24 April 2007, the Group entered into an agreement to acquire from the vendor, a subsidiary of Poly HK, an entire interest in Bright Able Developments Limited (“Bright Able”) at an aggregate consideration of approximately HK\$321 million. Bright Able is an investment company holding 49% equity interest in Zhoutouzui Project. The acquisition was completed on 4 June 2007.

The acquisition of the Zhoutouzui Project was satisfied by approximately HK\$321 million in cash which was financed by the proceeds of the convertible notes.

Employees

The Group continues to recruit and take in staff with capable calibre to work in pace with the growth of the Group. As at 30 June 2007, other than the executive directors, the Group employed 577 staff of which 497 are in its hotel operation and 80 for property development, project management and central management. During the period, total staff costs amounted to HK\$15 million of which HK\$1 million were capitalised as properties under development. The increase in staff costs for the period was mainly caused by the staffing engaged in the new hotel operation. Employees are remunerated according to qualifications and experience, job nature and performance. Remuneration packages are aligned with the job markets in the territories.

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 2007, together with comparative figures for the corresponding period of 2006. The unaudited consolidated interim results have been reviewed by the external auditor, BDO McCabe Lo Limited, and the audit committee of the Company.

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Notes	Six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Turnover	3	11,510	14,043
Cost of sales/services provided		(8,683)	(1,473)
Gross profit		2,827	12,570
Other income		874	114
Sales and distribution expenses		(1,021)	—
General and administrative expenses		(25,418)	(6,193)
(Loss) profit from operations	4	(22,738)	6,491
Finance income	5	5,038	1,311
Finance costs	5	(60,205)	(595)
Fair value adjustment of derivative liabilities			
— convertible notes		(28,101)	—
— convertible preference shares		(498)	—
Share of loss of associate		(26)	(3)
(Loss) profit before income tax expense		(106,530)	7,204
Income tax expense	6	(663)	(775)
(Loss) profit for the period		(107,193)	6,429
Attributable to:			
— Equity holders of the Company		(107,193)	6,429
— Minority interests		—	—
		(107,193)	6,429
Dividends	7	Nil	Nil
(Loss) earnings per share	8		
— basic		(HK9.82 cents)	HK0.75 cents
— diluted		N/A	N/A

Condensed Consolidated Balance Sheet

As at 30 June 2007

		30 June 2007 (Unaudited)	31 December 2006 (Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	9	745,081	1,648
Prepaid lease payments — non-current portion	9	302,798	—
Properties under development	9	1,252,107	698,945
Goodwill		472,761	49,655
Interest in associate		164,185	155,203
Restricted cash	14	299,424	—
		3,236,356	905,451
Current assets			
Inventories		18,415	—
Prepaid lease payments — current portion	9	9,222	—
Trade and other receivables	10	19,959	8,588
Restricted cash	14	62,528	—
Cash and cash equivalents		102,979	44,774
		213,103	53,362
Current liabilities			
Trade and other payables	11	106,119	5,168
Income tax payable		682	367
		106,801	5,535
Net current assets		106,302	47,827
Total assets less current liabilities		3,342,658	953,278

Condensed Consolidated Balance Sheet

As at 30 June 2007

		30 June 2007 (Unaudited)	31 December 2006 (Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Other payable — due after one year	<i>11</i>	63,573	63,573
Bank borrowings — due after one year	<i>12</i>	718,660	—
Convertible notes	<i>13</i>	189,188	—
Financial derivative liabilities	<i>13</i>	1,442,289	—
Deferred tax liabilities		104,251	100,122
Loans from minority shareholders		—	244,936
		2,517,961	408,631
Net assets		824,697	544,647
Capital and reserves			
Ordinary share capital	<i>15</i>	10,940	10,899
Convertible preference share capital	<i>15</i>	1,904	—
Reserves		811,853	488,403
Total equity attributable to equity holders of the Company		824,697	499,302
Minority interests		—	45,345
Total equity		824,697	544,647

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to equity holders of the Company										
	Ordinary share capital	Convertible preference share capital	Share premium	Contributed surplus reserve	Share-based payment reserve (note 18)	Convertible equity reserve	Foreign exchange reserve	(Accumulated loss)/ retained profits	Total	Minority interests	Consolidated
(Unaudited)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	10,899	—	446,902	15,497	3,584	—	7,589	14,831	499,302	45,345	544,647
Exchange differences arising on consolidation of overseas entities and net income recognised directly in equity	—	—	—	—	—	—	42,625	—	42,625	8,936	51,561
Loss for the period	—	—	—	—	—	—	—	(107,193)	(107,193)	—	(107,193)
Total recognised (expenses) income for the period	—	—	—	—	—	—	42,625	(107,193)	(64,568)	8,936	(55,632)
Issue of shares:											
— Exercise of bonus warrants	41	—	4,469	—	—	—	—	—	4,510	—	4,510
— Convertible preference shares	—	1,904	—	—	—	378,587	—	—	380,491	—	380,491
Recognition of equity-settled share-based payment expenses	—	—	—	—	4,962	—	—	—	4,962	—	4,962
Acquisition of minority interests in a subsidiary	—	—	—	—	—	—	—	—	—	(54,281)	(54,281)
	41	1,904	4,469	—	4,962	378,587	—	—	389,963	(54,281)	335,682
At 30 June 2007	10,940	1,904	451,371	15,497	8,546	378,587	50,214	(92,362)	824,697	—	824,697
At 1 January 2006	6,407	—	156,007	15,497	—	4,207	1	10,215	192,334	—	192,334
Exchange differences arising on consolidation of overseas entities and net income recognised directly in equity	—	—	—	—	—	—	24	—	24	—	24
Profits for the period	—	—	—	—	—	—	—	6,429	6,429	—	6,429
Total recognised income for the period	—	—	—	—	—	—	24	6,429	6,453	—	6,453
Conversion of convertible notes	1,818	—	58,496	—	—	(4,207)	—	—	56,107	—	56,107
At 30 June 2006	8,225	—	214,503	15,497	—	—	25	16,644	254,894	—	254,894

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash (used in) generated from operating activities	(433,254)	2,062
Investing activities		
Acquisitions of subsidiaries (<i>note 16</i>)	(944,240)	—
Additions in properties under development	(100,963)	—
Purchase of property, plant and equipment	(23,645)	(1,637)
Other investing cash flows	(2,265)	2,298
Net cash (used in) from investing activities	(1,071,113)	661
Financing activities		
Exercise of bonus warrants	4,510	—
Proceeds from convertible notes (<i>note 13</i>)	1,562,380	—
Payment of issuing cost (<i>note 13</i>)	(57,427)	—
Proceeds from bank borrowings	51,546	—
Net cash from financing activities	1,561,009	—
Net increase in cash and cash equivalents	56,642	2,723
Effect of foreign exchange rate changes	1,563	23
Cash and cash equivalents at beginning of period	44,774	83,747
Cash and cash equivalents at end of period	102,979	86,493
Analysis of the balances of cash and cash equivalents		
— Bank balances and cash	102,979	86,493

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

1. Basis of Preparation

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

2. Principal Accounting Policies

These Interim Financial Statements should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2006.

The accounting policies and methods of computation used in the preparation of these Interim Financial Statements are consistent with those used in the Group’s annual financial statements for the year ended 31 December 2006, except for the adoption of the following new standards, amendment and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning 1 January 2007.

		<i>Effective for accounting periods beginning on or after</i>
HKAS 1 (Amendment)	Capital Disclosures	<i>1 January 2007</i>
HKFRS 7	Financial Instruments: Disclosures	<i>1 January 2007</i>
HK(IFRIC)	Applying the Restatement Approach	<i>1 March 2006</i>
— Interpretation 7	under HKAS 29 Financial Reporting in Hyperinflationary Economies	
HK(IFRIC)	Scope of HKFRS 2	<i>1 May 2006</i>
— Interpretation 8		
HK(IFRIC)	Reassessment of Embedded Derivatives	<i>1 June 2006</i>
— Interpretation 9		
HK(IFRIC)	Interim Financial Reporting	<i>1 November 2006</i>
— Interpretation 10	and Impairment	

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

2. Principal Accounting Policies (Continued)

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

		<i>Effective for accounting periods beginning on or after</i>
HKAS 23 (Revised)	Borrowing Costs	<i>1 January 2009</i>
HKFRS 8	Operating Segments	<i>1 January 2009</i>
HK(IFRIC)	HKFRS 2 — Group and Treasury	<i>1 March 2007</i>
— Interpretation 11	Share Transactions	
HK(IFRIC)	Service Concession Arrangements	<i>1 January 2008</i>
— Interpretation 12		
HK(IFRIC)	Customer Loyalty Programmes	<i>1 July 2008</i>
— Interpretation 13		
HK(IFRIC)	HKAS 19 — The Limit on a Defined	<i>1 January 2008</i>
— Interpretation 14	Benefit Asset, Minimum Funding Requirements and their Interaction	

The directors of the Company anticipate that the application of these new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. Turnover and Segment Information

The Group is principally engaged in the hotel operation, property development, provision of property development project management and related ancillary services. As the entire Group's revenue and results were derived from the People's Republic of China ("the PRC"), no segment information has been disclosed in respect of the Group's geographical segments.

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

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Property development project management and interior decoration service fee	1,776	14,043
Hotel operation revenue	9,734	—
	11,510	14,043

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

3. Turnover and Segment Information (Continued)

The Group's unaudited revenue and results by business segment for the six months ended 30 June 2007, together with the comparative figures for the corresponding period of 2006, are presented below:

For the six months ended 30 June	Project management		Property development		Hotel operation		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1,776	14,043	—	—	9,734	—	11,510	14,043
Segment results	(191)	10,256	(2,023)	(12)	(9,203)	—	(11,417)	10,244
Unallocated operating income and expenses							(11,321)	(3,753)
(Loss) profit from operations							(22,738)	6,491
Finance income							5,038	1,311
Finance costs							(60,205)	(595)
Fair value adjustment of derivative liabilities								
— convertible notes							(28,101)	—
— convertible preference shares							(498)	—
Share of loss of associate	—	—	(26)	(3)	—	—	(26)	(3)
(Loss) profit before income tax expense							(106,530)	7,204
Income tax expense							(663)	(775)
(Loss) profit for the period							(107,193)	6,429

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

4. (Loss) Profit from Operations

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

	Six months ended 30 June	
	2007 (Unaudited)	2006 (Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of sales/services provided	8,683	1,473
Staff costs, including directors' remuneration:		
— Basic salaries and other benefits	12,013	3,076
— Bonus	859	—
— Pension scheme contributions	456	136
— Share-based payment expenses	1,920	—
	<hr/>	<hr/>
Total staff costs, including directors' remuneration	15,248	3,212
<i>Less: expenses capitalised</i>	(882)	—
	<hr/>	<hr/>
	14,366	3,212
Share-based payment expenses for non-employees	3,042	—
Auditor's remuneration	585	370
Depreciation of property, plant and equipment	5,097	99
<i>Less: expenses capitalised</i>	(9)	—
	<hr/>	<hr/>
	5,088	99
Amortisation of prepaid lease payments	1,522	—
<i>Less: expenses capitalised</i>	(852)	—
	<hr/>	<hr/>
	670	—
Minimum lease payments under operating lease in respect of land and buildings	869	240
	<hr/>	<hr/>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

5. Finance Income and Costs

	Six months ended 30 June	
	2007 (Unaudited) <i>HK\$'000</i>	2006 (Unaudited) <i>HK\$'000</i>
Finance income:		
Bank interest income	3,847	1,311
Other interest income	1,191	—
	5,038	1,311
Finance costs:		
Interest on convertible notes wholly repayable after five years	20,095	—
Interest on convertible notes wholly repayable within five years	—	595
Interest on bank borrowings wholly repayable after five years	8,312	—
Imputed interest on loan from minority shareholder wholly repayable within five years	6,020	—
	34,427	595
<i>Less:</i> expenses capitalised as properties under development	(25,239)	—
	9,188	595
Issue cost on financial derivative of convertible notes	50,975	—
Other borrowing costs	42	—
	60,205	595

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

6. Income Tax Expense

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for current tax for the period:		
— Hong Kong profits tax	620	400
— outside Hong Kong	43	479
Deferred tax	—	(104)
	<hr/>	<hr/>
Total income tax expense	663	775

Hong Kong profits tax is calculated at 17.5% (six months ended 30 June 2006: 17.5%) on the estimated assessable profits for the period.

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.

7. Dividends

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

8. (Loss) Earnings per Share Attributable to Ordinary Equity Holders of the Company

Basic (loss) earnings per share

The calculation of basic (loss) earnings per share is based on the loss attributable to ordinary equity holders of the Company of HK\$107,193,000 (six months ended 30 June 2006: profit of HK\$6,429,000) and the weighted average of 1,091,260,000 (six months ended 30 June 2006 (restated): 853,932,000) ordinary shares in issue during the period.

The weighted average number of ordinary shares for the purpose of basic earnings per share for 2006 has been adjusted for the impact on the right issue arising from the Company's open offer in August 2006 and conversion of bonus warrants during the period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

8. (Loss) Earnings per Share Attributable to Ordinary Equity Holders of the Company (Continued)

Diluted (loss) earnings per share

For the period ended 30 June 2007, 63,850,000 share options, US\$200,000,000 convertible notes, 190,447,000 convertible preference shares, 201,524,000 bonus warrants in issue were excluded from diluted weighted average shares outstanding as their effects were anti-dilutive.

9. Additions of Property, Plant and Equipment, Prepaid Lease Payments and Properties Under Development

During the period, the Group has acquired hotel property of approximately HK\$668 million, plant and equipment of approximately HK\$60 million, prepaid lease payments of approximately HK\$304 million, and properties under development of approximately HK\$491 million through acquisition of subsidiaries and new additions.

10. Trade and Other Receivables

The Group has a policy of allowing an average credit period of 30-60 days to its trade customers. The following includes an ageing analysis of trade receivables at the balance sheet date:

	30 June 2007 (Unaudited)	31 December 2006 (Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged 0 - 30 days	3,065	1,176
Aged 31 - 90 days	197	1,408
Aged over 90 days	149	2,720
Total trade receivables	3,411	5,304
Amounts due from related companies	515	—
Deposits paid on acquisition of subsidiaries	5,000	—
Deposits, prepayments and other receivables	11,033	3,284
	19,959	8,588

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

11. Trade and Other Payables

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

		30 June 2007 (Unaudited)	31 December 2006 (Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Aged 0 - 30 days		19,610	—
Aged 31 - 90 days		983	3
Aged over 90 days		238	40
Total trade payables		20,831	43
Retention money payable for construction costs	<i>(a)</i>	24,682	—
Other payables and accruals		60,606	5,125
Balance of consideration payable for acquisition of a subsidiary	<i>(b)</i>	63,573	63,573
		169,692	68,741
Amounts due after one year	<i>(b)</i>	(63,573)	(63,573)
Amounts due within one year		106,119	5,168

Notes:

- (a) For retention money payable in respect of construction contracts, the due dates are usually one year after the completion of the construction work.
- (b) This represents balance of consideration payable to the vendor for acquisition of a subsidiary. The amount is expected to be settled in the form of a two-year promissory note which will be issued upon obtaining the land use right certificate attributable to Zhoutouzui Project, bearing an interest rate of 8% per annum from the date of issue.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

12. Bank Borrowings

During the period, the Group acquired a subsidiary and obtained new bank loan which resulted in bank borrowing of approximately HK\$719 million as at 30 June 2007. The bank loans carried interest at prevailing market rates ranging from 7.18% to 7.56% per annum and is repayable in 2013. The proceeds were used for construction costs purposes.

The borrowings are secured by mortgages of ownership interests in the hotel property and a property under development to the extent of RMB800 million (equivalent to approximately HK\$825 million).

13. Convertible Notes and Financial Derivative Liabilities

The convertible notes in the aggregate principal amount of US\$200 million (equivalent to approximately HK\$1,562.4 million) were issued on 4 May 2007. The notes bear a 4% per annum coupon, payable semi-annually in arrear, with a maturity of 6 years and an annual yield-to-maturity of 15%. The notes are convertible for ordinary shares of the Company at an initial conversion price of HK\$1.35 per share which is subject to a reset mechanism that is geared to the share price performance to the extent of HK\$1.00 per share. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each note at 201.33% of its principal amount on the maturity date which is due on 3 May 2013.

In connection with the acquisition of the 29% interest in the Westin Project that was held by the Company's director and controlling shareholder, Mr. Yu Pan, convertible preference shares of approximately HK\$257 million ("CPS") were issued to his associate. The CPS is non-interest bearing, non-redeemable and convertible into ordinary shares of the Company subject to the same initial conversion price and reset mechanism as the convertible notes.

The derivative components embedded in the convertible notes and CPS are presented as financial derivative liabilities which are revalued on the balance sheet date at fair values.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

13. Convertible Notes and Financial Derivative Liabilities (Continued)

The movements of convertible notes and financial derivative liabilities of CPS were as follows:

The Group and the Company	Nominal value	Equity component	Liability component (Note)	Financial derivative components	Total
(unaudited)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(A) Convertible notes					
Carrying amount at 1 January 2006	60,000	5,100	55,087	—	60,187
Accrued interest expense (note 5)	—	—	595	—	595
Conversion of the convertible notes	(60,000)	(5,100)	(55,352)	—	(60,452)
Interest paid	—	—	(330)	—	(330)
Carrying amount at 31 December 2006 and 1 January 2007	—	—	—	—	—
Issue of new convertible notes	1,562,380	—	175,545	1,386,835	1,562,380
Transaction costs	—	—	(6,452)	(50,975)	(57,427)
Transaction costs on financial derivative charged as finance costs (note 5)	—	—	—	50,975	50,975
Accrued interest expense (note 5)	—	—	20,095	—	20,095
Fair value adjustment on derivative liability of convertible notes	—	—	—	28,101	28,101
Carrying amount at 30 June 2007	1,562,380	—	189,188	1,414,936	1,604,124

(B) Financial derivative liabilities on CPS

Carrying amount at 1 January 2007	—
Arising from issue of CPS	26,855
Fair value adjustment on derivative liability of CPS	498
Carrying amount at 30 June 2007	27,353
(A+B) Total carrying amount of financial derivative liabilities at 30 June 2007	1,442,289

Note: Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 59.7% (six months ended 30 June 2006: 7.75%) to the liability component.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

14. Pledge of Assets

In addition to those disclosed in notes 12, as at 30 June 2007, to secure for the convertible notes, cash in accounts totalling US\$46 million (equivalent to HK\$362 million) and shares of certain intermediate holding companies of the property development subsidiaries of the Group were charged in favour of the security trustee acting for the convertible noteholders.

15. Share Capital

The Group and the Company (unaudited)	Number of shares		Nominal value	
	Ordinary share capital of HK\$0.01 each	Convertible preference share capital of HK\$0.01 each	Ordinary share capital	Convertible preference share capital
	'000	'000	HK\$'000	HK\$'000
Authorised:				
At 1 January 2006 and 31 December 2006	30,000,000	—	300,000	—
Change in authorised capital as approved by ordinary shareholders at the special general meeting at 26 April 2007	(1,000,000)	1,000,000	(10,000)	10,000
At 30 June 2007	29,000,000	1,000,000	290,000	10,000
Issued and fully paid:				
At 1 January 2006	640,719	—	6,407	—
Issue of shares				
— Conversion of convertible notes	181,818	—	1,818	—
At 30 June 2006	822,537	—	8,225	—
Issue of shares:				
— Open offer	267,324	—	2,674	—
— Exercise of bonus warrants	10	—	—	—
At 31 December 2006	1,089,871	—	10,899	—
Issue of shares:				
— Exercise of bonus warrants	4,100	—	41	—
— Acquisition of additional interest in a subsidiary	—	190,447	—	1,904
At 30 June 2007	1,093,971	190,447	10,940	1,904

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

15. Share Capital (Continued)

The convertible preference shares, are non voting and non-redeemable, shall entitle the holders thereof the right to convert their preference shares into fully-paid ordinary shares of the Company at any time after the date of issuance of the preference shares, into such number of fully-paid ordinary shares to be determined by the issue price of preference shares divided by the conversion price of HK\$0.01 per ordinary share. The convertible preference shares are convertible for ordinary shares of the Company at an initial conversion price of HK\$1.35 per share which is subject to a reset mechanism that is geared to the share price performance to the extent of HK\$1.00 per share. The preference shares do not confer the holders any right to dividend nor other distribution other than a return of capital that is made in a lower priority than the ordinary shareholders.

16. Acquisitions of Subsidiaries

During the period, the Group completed the acquisitions of certain subsidiaries, details of which are as follows:

- (a) On 2 March 2007, the Group entered into two separate agreements with (a) a subsidiary of Poly (Hong Kong) Investments Limited ("Poly HK") which was a substantial shareholder of a subsidiary of the Company, and an independent third party, and (b) Wise Gain Investment Limited, a company wholly-owned by Mr. Yu Pan, the controlling shareholder and a director of the Company. Both agreements were for the acquisition of the entire equity interest in and shareholders' loans of Yue Tian Development Limited and its wholly-owned subsidiary incorporated in the PRC (the "Yue Tian Group"). The total consideration of the two agreements amounted to approximately HK\$887 million. The activity of the Yue Tian Group is the development of a property, comprising a hotel and office tower, that situates at the Tianhe District, Guangzhou (the "Westin Project"). The acquisition was completed on 4 May 2007.

The acquisition of the Westin Project was satisfied by approximately HK\$630 million in cash, which was financed by the proceeds of the convertible notes, and the issue of convertible preference shares to Mr. Yu's associate at a fair value of approximately HK\$407 million.

- (b) On 24 April 2007, the Group entered into an agreement to acquire from the vendor, a subsidiary of Poly HK, an entire interest in Bright Able Developments Limited ("Bright Able") at an aggregate consideration of approximately HK\$321 million. Bright Able is an investment company holding 49% equity interest in Zhoutouzui Project. The acquisition was completed on 4 June 2007.

The acquisition of the Zhoutouzui Project was satisfied by approximately HK\$321 million in cash which was financed by the proceeds of the convertible notes.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

16. Acquisitions of Subsidiaries (Continued)

The net assets acquired in the transactions and the resulting goodwill arising, are as follow:

	Carrying amount before acquisition			Six months ended 30 June	
	100% equity interest in Westin project	Remaining 49% equity interest in Zhoutouzui project	Total carrying amount	2007 (Unaudited)	2006 (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:					
Property, plant and equipment	1,869	—	1,869	1,869	—
Properties under development	1,088,292	—	1,088,292	1,088,292	—
Prepaid lease payment	303,142	—	303,142	303,142	—
Interest in associate	—	305,237	305,237	305,237	—
Trade and other receivables	2,234	—	2,234	2,234	—
Cash and cash equivalents	10,190	—	10,190	10,190	—
Trade and other payables	(125,194)	—	(125,194)	(125,194)	—
Bank borrowings	(647,100)	—	(647,100)	(647,100)	—
Amounts due to the then shareholders	(610,022)	(268,654)	(878,676)	(878,676)	—
Net assets	23,411	36,583	59,994	59,994	—
Goodwill arising on acquisition	405,792	17,314		423,106	—
	429,203	53,897		483,100	—
<i>Satisfied by:</i>					
Cash consideration paid	631,879	322,551		954,430	—
Fair value of convertible preference shares issued	407,346	—		407,346	—
Total consideration	1,039,225	322,551		1,361,776	—
Shareholder's loan acquired	(610,022)	(268,654)		(878,676)	—
	429,203	53,897		483,100	—
<i>Net outflow arising from the acquisition of subsidiaries:</i>					
Cash consideration paid	629,449	321,251		950,700	—
Direct costs relating to the acquisition	2,430	1,300		3,730	—
	631,879	322,551		954,430	—
Cash and cash equivalents acquired	(10,190)	—		(10,190)	—
	621,689	322,551		944,240	—

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

16. Acquisitions of Subsidiaries (Continued)

As at the date of acquisition, the carrying amount of the acquired assets and liabilities approximate their fair values.

These subsidiaries acquired contributed to the Group's revenue of HK\$10 million and contributed to the Group's loss to the period of HK\$9 million. If these acquisitions had been completed on 1 January 2007, the contribution of these subsidiaries acquired to the Group's revenue and profit would be same as those for the period.

Goodwill arose in the business combination because the cost of the combination included a control premium paid to acquire these subsidiaries. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of these subsidiaries. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

17. Related Party Transactions

(a) Material transactions with related parties:

Related party relationship	Type of transaction	Six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
		Transaction amount	
Companies beneficially owned by Mr. Yu Pan	(a) Fair value of consideration paid for acquisition of a subsidiary (note 16)	407,346	—
	(b) Rental expenses for office premises paid to a related company	252	240
	(c) Building management and air-conditioning fees paid to a related company	252	240
Employees and consultants of companies beneficially owned by Mr. Yu Pan	Granted 39,150,000 share options pursuant to the 2005 Scheme to a number of non-employees	3,042	—
Yaubond Limited and its subsidiary, an associate of the Group	Services income for project development project management	—	4,080
Shareholder of subsidiaries	(a) Considerations paid to shareholders for acquisition of subsidiaries	773,398	—
	(b) Imputed interest on loan from minority shareholder	6,020	—

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

17. Related Party Transactions (Continued)

(b) Pledge of Shares by Controlling Shareholder

To secure for the convertible notes of a principal value of US\$200 million issued by the Company, Grand Cosmos Holdings Limited (“Grand Cosmos”), a company wholly owned by Mr. Yu Pan, pledged the following assets held by it in favour of the trustee of the noteholders:

- (i) 621,791,985 ordinary shares of the Company;
- (ii) convertible preference shares of 190,447,209 and 145,537,077 issued by the Company pursuant to the acquisition of Westin Project and Tianyu Garden Phase II respectively;
- (iii) all new ordinary shares to be issued by the Company pursuant to Grand Cosmos’s conversion of the convertible preference shares; and
- (iv) first fixed charge and first floating charge over the assets of the Grand Cosmos.

(c) Compensation of key management personnel

	Six months ended 30 June	
	2007 (unaudited)	2006 (unaudited)
	<i>HK\$’000</i>	<i>HK\$’000</i>
Short-term employee benefits	4,639	1,748
Other long-term employee benefits	48	24
Share-based payments	1,088	—
	<u>5,775</u>	<u>1,772</u>

Key management is those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and executive officers.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

18. Equity-settled Share-based Transactions

The Company has a share option scheme (the “2005 Scheme”) for eligible employees of the Group and non-employees. As at 1 January 2007 and 30 June 2007, there were 63,850,000 share options outstanding. No option under the 2005 Scheme has been exercised, cancelled or lapsed during the period.

The following table discloses details of the Company’s options under the 2005 Scheme held by employees (including directors) and non-employees, and movement in such holdings during the period:

Date of grant	Exercise period	Vesting conditions	Exercise price	Category			Total Category
				Directors (Note)	Employees	Non-employees	
				Number of options granted	Number of options granted	Number of options granted	Number of options granted
12.9.2006	13 March 2007 to 31 July 2015	Six months from the date of grant	HK\$1.31	3,266,000	4,958,000	13,044,000	21,268,000
12.9.2006	13 March 2008 to 31 July 2015	One and half years from the date of grant	HK\$1.31	3,266,000	4,958,000	13,044,000	21,268,000
12.9.2006	13 March 2009 to 31 July 2015	Two and half years from the date of grant	HK\$1.31	3,268,000	4,984,000	13,062,000	21,314,000
				<u>9,800,000</u>	<u>14,900,000</u>	<u>39,150,000</u>	<u>63,850,000</u>

Note of category of directors:

Mr. Wen Xiao Bing	5,000,000
Mr. Lau Yat Tung, Derrick	3,000,000
Mr. Choy Shu Kwan	600,000
Mr. Cheng Wing Keung, Raymond	600,000
Ms. Chung Lai Fong	600,000
	<u>9,800,000</u>

The fair value of the share option and the share price of the Company at the date of grant are HK\$0.28 and HK\$1.30 respectively.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

19. Capital commitments

The Group	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Capital expenditure contracted for but not provided for in the Interim Financial Statements in respect of		
— Property construction and development costs	947,775	833,365
— Consideration for acquisition of subsidiaries	499,690	—
	1,447,465	833,365

20. Contingent liabilities

As at 30 June 2007, the Group had no material contingent liabilities.

21. Events After the Balance Sheet Date

(a) Acquisitions of companies

Subsequent to 30 June 2007, the Group completed the acquisitions of certain companies, details of which are as follows:

- (i) Pursuant to the agreement dated 28 May 2007 in relation to the acquisition from a company wholly-owned by the Company's controlling shareholder, Mr. Yu, of a commercial podium of Tianyu Garden Phase 2 at a consideration of approximately HK\$196 million. In this connection 145,537,077 convertible preference shares of the Company were issued to Mr. Yu's associate as settlement of the consideration. The transaction was completed on 19 July 2007.
- (ii) On 21 June 2007, Sky Honest Investments Corp. ("Sky Honest"), a subsidiary of the Company, entered into an agreement to acquire the remaining 51% equity interest in the Group's 49%-held associate, Yaubond Limited ("Yaubond"), at a cash consideration of approximately HK\$204 million. The transaction was completed on 27 July 2007. The acquisition cost was financed entirely by borrowing from an institutional lender, which it is secured by mortgages constituted by two deeds entered into respectively by Sky Honest and its holding company, Chain Up Limited ("Chain Up") over the following securities:
 - (1) cash in a bank account in the amount of approximately HK\$21 million held in escrow;
 - (2) shareholders' loans to Sky Honest and Yaubond;
 - (3) shares in Sky Honest and Yaubond; and
 - (4) all other assets of Chain Up and Sky Honest.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

21. Events After the Balance Sheet Date (Continued)

(a) Acquisitions of companies (Continued)

The unaudited net assets acquired in the transactions and the unaudited goodwill arising are as follows:—

	Carrying amount before acquisition for Remaining 51% equity interest in Tian He North Project	Fair value adjustments on the acquisition date	Remaining 51% equity interest in Tian He North Project after fair value adjustments	100% equity interest in Tianyu Garden Phase 2	Total Fair value (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net assets acquired:					
Investment properties	—	—	—	494,845	494,845
Property, plant and equipment	—	—	—	64	64
Properties under development	330,984	178,724	509,708	—	509,708
Trade and other receivables	104	—	104	9,859	9,963
Cash and cash equivalents	534	—	534	17,133	17,667
Trade and other payables	(224)	—	(224)	(32,595)	(32,819)
Income tax payable	—	—	—	(862)	(862)
Deferred tax liabilities	(69,720)	(58,979)	(128,699)	(121,230)	(249,929)
Bank borrowings	—	—	—	(117,124)	(117,124)
Amounts due to the then shareholders	(2,505)	—	(2,505)	—	(2,505)
Net assets	259,173	119,745	378,918	250,090	629,008
Minority interests	(128,222)	—	(128,222)	—	(128,222)
Attributable to the Group	130,951	119,745	250,696	250,090	500,786
Negative goodwill arising on acquisition of Tian He North Project	—	—	(48,835)	—	(48,835)
Goodwill arising on acquisition of Tianyu Garden Phase 2	—	—	—	52,484	52,484
			201,861	302,574	504,435
<i>Satisfied by:</i>					
Cash consideration paid	—	—	204,366	2,000	206,366
Fair value of convertible preference shares issued	—	—	—	300,574	300,574
Total consideration	—	—	204,366	302,574	506,940
Shareholder's loan acquired	—	—	(2,505)	—	(2,505)
			201,861	302,574	504,435
<i>Net outflow arising from the acquisition of subsidiaries:</i>					
Cash consideration paid	—	—	204,116	—	204,116
Direct costs relating to the acquisition	—	—	250	2,000	2,250
			204,366	2,000	206,366
Cash and cash equivalents acquired	—	—	(534)	(17,133)	(17,667)
			203,832	(15,133)	188,699

(b) On 11 July 2007, 17 July 2007 and 5 September 2007, a total of convertible notes in the principal value of US\$6,000,000 were converted into ordinary shares of the Company at a conversion price of HK\$1.35 per share, resulting in a total number of 34,719,555 ordinary shares of the Company issued.

(c) In September 2007, a total of 190,447,209 ordinary shares were issued to Mr. Yu's associate pursuant to its exercise of the conversion right attached to the convertible preference shares issued for the Group's acquisition of the Westin Project.

Report on Review of Interim Financial Information



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

(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 11 to 33 which comprise the condensed consolidated balance sheet of Skyfame Realty (Holdings) Limited as of 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified of Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to form a 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.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

BDO McCabe Lo Limited
Certified Public Accountants

Li Yin Fan

Practising Certificate Number P03113

Hong Kong, 24 September 2007

Other Information

Interim Dividend

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2007 (six month ended 30 June 2006: Nil).

Directors' Interests in Shares and Underlying Shares

As at 30 June 2007, 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:

Interests in the Shares or underlying Shares

Name of Director	Company/ Associated corporation	Capacity	Number of Shares or underlying Shares (long position)	Approximate shareholding percentage
Mr. YU Pan	Company	Interest of controlled corporation and/or beneficial owner	1,006,511,271 (Note 1)	92.01% (Note 2)

Notes:

- These Shares comprise (i) 42,732,000 underlying Shares which would be issued pursuant to the exercise of the subscription rights attaching to 42,732,000 2008 Warrants held directly by Mr. YU; and (ii) 627,791,985 existing Shares, 3,000 underlying Shares which would be issued pursuant to the exercise of the subscription rights attaching to 3,000 2006 Warrants, 190,447,209 underlying Shares which would be issued upon exercise in full of the conversion rights attaching to the Westin CPS at the conversion ratio of 1 Westin CPS to 1 Share and 145,537,077 underlying Shares which would be issued upon exercise in full of the conversion rights attaching to the Tianyu CPS at the conversion ratio of 1 Tianyu CPS to 1 New Share held directly by Grand Cosmos. The entire issued share capital of Grand Cosmos is held by Sharp Bright, the entire issued share capital of which is held by Mr. YU. Item (ii) above representing 963,776,271 Shares and/or underlying Shares (which does not include the underlying interest in 3,000 2006 Warrants) have been charged in favour of the Security Trustee by way of a share charge dated 4 May 2007.
- For the purposes of this section, the shareholding percentage in the Company is calculated on the basis of 1,093,971,156 Shares in issue as at 30 June 2007.

Other Information

Directors' Interests in Shares and Underlying Shares (Continued)

Save as disclosed above, as at the 30 June 2007, 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 2007, 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.

Interests in the Shares or underlying Shares

Name of Shareholder	Capacity	Number of Shares or underlying Shares	Approximate shareholding percentage (Note 8)
Sharp Bright	Interest of controlled corporation	963,779,271 (long) (Note 1)	88.10%
Grand Cosmos	Beneficial owner	963,779,271 (long) (Note 1)	88.10%
Merrill Lynch & Co., Inc.	Interests of controlled corporation	1,451,728,718 (long) (Note 2)	132.70%

Other Information

Substantial Shareholders (Continued)

Interests in the Shares or underlying Shares (Continued)

Name of Shareholder	Capacity	Number of Shares or underlying Shares	Approximate shareholding percentage (Note 8)
Lehman Brothers Holdings Inc.	Interests of controlled corporation and/or person having a security interest in shares	1,278,190,718 (long) (Note 3)	116.84%
	Interests of controlled corporation	2,700,000 (short)	0.25%
DKR Capital Inc.	Interests of controlled corporation and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,174,225,351 (long) (Note 4)	107.34%
DKR Management Co, Inc.	Interests of controlled corporation and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,174,225,351 (long) (Note 4)	107.34%
DKR Capital Partners LP	Interests of controlled corporation and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,174,225,351 (long) (Note 4)	107.34%

Other Information

Substantial Shareholders (Continued)

Interests in the Shares or underlying Shares (Continued)

Name of Shareholder	Capacity	Number of Shares or underlying Shares	Approximate shareholding percentage (Note 8)
DKR Oasis Management Co. LP	Investment manager and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,174,225,351 (long) (Note 4)	107.34%
DKR SoundShore Oasis Holding Fund Ltd.	Beneficial owner and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,174,225,351 (long) (Note 4)	107.34%
Oasis Management Holdings LLC	Beneficial owner and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,174,225,351 (long) (Note 4)	107.34%
Deutsche Bank Aktiengesellschaft	Person having a security interest in shares	154,086,068 (long)	14.09%
PMA Capital	Investment manager and/or person having a security interest in shares	1,176,694,668 (long) (Note 5)	107.56%
PMA Prospect Fund	Beneficial owner and/or person having a security interest in shares	973,951,378 (long) (Note 5)	89.03%

Other Information

Substantial Shareholders (Continued)

Interests in the Shares or underlying Shares (Continued)

Name of Shareholder	Capacity	Number of Shares or underlying Shares	Approximate shareholding percentage (Note 8)
Diversified Asian Strategies Fund	Beneficial owner	109,958,068 (long) (Note 5)	10.05%
PMA Asian Opportunities Fund	Beneficial owner	44,128,000 (long) (Note 5)	4.03%
PMA Focus Fund	Investment manager and/or person having a security interest in shares	913,018,558 (long) (Note 5)	83.46%
Mr. Luo Dong Liang	Beneficial owner	88,262,000 (long) (Note 6)	8.07%
Leader Gain Limited	Beneficial owner	66,666,666 (long) (Note 7)	6.09%
Ms. Azuma Sarina	Interest of controlled corporation	66,666,666 (long) (Note 7)	6.09%
Dalton Greater China (Master) Fund	Beneficial owner and/or persons having a security interest in shares	61,181,893 (long)	5.59%
Dalton Investments LLC	Investment manager	61,181,893 (long)	5.59%

Other Information

Substantial Shareholders (Continued)

Interests in the Shares or underlying Shares (Continued)

Notes:

1. These Shares comprise 627,791,985 existing Shares, 3,000 underlying Shares which would be issued pursuant to the exercise of the subscription rights attaching to 3,000 2006 Warrants, 190,447,209 underlying Shares which would be issued upon exercise in full of the conversion rights attaching to the Westin CPS at the conversion ratio of 1 Westin CPS to 1 Share and 145,537,077 underlying Shares which would be issued upon exercise in full of the conversion rights attaching to the Tianyu CPS at the conversion ratio of 1 Tianyu CPS to 1 New Share held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos is held by Sharp Bright, Sharp Bright is deemed to be interested in the Shares and underlying Shares in which Grand Cosmos is interested by virtue of the SFO. As the entire issued share capital of Sharp Bright is held by Mr. YU, Mr. YU is deemed to be interested in the Shares and underlying Shares in which Sharp Bright is interested by virtue of SFO. The above representing 963,776,271 Shares and/or underlying Shares (which does not include the underlying interest in 3,000 2006 Warrants) have been charged in favour of the Security Trustee by way of share charge dated 4 May 2007.
2. These Shares comprise (i) 20,000,000 existing Shares; (ii) 884,895,718 Shares and/or underlying Shares (representing 627,791,985 existing Shares and 257,103,733 underlying Shares which would be issued upon exercise in full of the conversion rights attaching to the Westin CPS at the conversion ratio of 1 Westin CSP to 1.35 Shares) charged in favour of the Security Trustee (who holds the benefit on trust for the Noteholders) by Grand Cosmos; and (iii) an aggregate of 546,833,000 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the minimum reset reference price of HK\$1.00 held directly or indirectly by Merrill Lynch Group, Inc, Merrill Lynch L.P., Indopark Holdings Ltd, Merrill Lynch International Incorporated, Merrill Lynch International Holdings Inc., Merrill Lynch Europe PLC, Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited, ML UK Capital Holdings and Merrill Lynch International. All of these entities are controlled by Merrill Lynch & Co., Inc.
3. These Shares comprise (i) a long position of 2,700,000 existing Shares; (ii) 884,895,718 Shares and/or underlying Shares (representing 627,791,985 existing Shares and 257,103,733 underlying Shares which would be issued upon exercise in full of the conversion rights attaching to the Westin CPS at the conversion ratio of 1 Westin CSP to 1.35 Shares) charged in favour of the Security Trustee (who holds the benefit on trust for the Noteholders) by Grand Cosmos; and (iii) 390,595,000 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the minimum reset reference price of HK\$1.00 held directly or indirectly by Lehman Brothers Commercial Corporation Asia Limited, LBCCA Holdings I LLC. and LBCCA Holdings II LLC. All these entitled are controlled by Lehman Brothers Holdings Inc.

Other Information

Substantial Shareholders (Continued)

Interests in the Shares or underlying Shares (Continued)

Notes: (Continued)

4. These Shares comprise (i) 884,895,718 Shares and/or underlying Shares (representing 627,791,985 existing Shares and 257,103,733 underlying Shares which would be issued upon exercise in full of the conversion rights attaching to the Westin CPS at the conversion ratio of 1 Westin CSP to 1.35 Shares) charged in favour of the Security Trustee (who holds the benefit on trust for the Noteholders) by Grand Cosmos; and (ii) 289,329,633 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the initial conversion price of HK\$1.35.
5. These Shares comprise (i) 884,895,718 Shares and/or underlying Shares (representing 627,791,985 existing Shares and 257,103,733 underlying Shares which would be issued upon exercise in full of the conversion rights attaching to the Westin CPS at the conversion ratio of 1 Westin CSP to 1.35 Shares) charged in favour of the Security Trustee (who holds the benefit on trust for the Noteholders) by Grand Cosmos; (ii) 155,082,000 existing Shares (99,194,000 Shares held by Diversified Asian Strategies Fund and 44,128,000 Shares held by PMA Asian Opportunities Fund); (iii) 19,538,450 underlying Shares which would be issued upon exercise of the subscription rights attaching to 19,538,450 2006 Warrants held by Asian Diversified Total Return Limited Duration Company, Diversified Asian Strategies Fund and PMA Asian Opportunities Fund; and (iv) 117,178,500 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the minimum reset reference price of HK\$1.00 by PMA Prospect Funds (as to 89,055,660 underlying Shares) and PMA Focus Fund (as to 28,122,840 underlying Shares). All of these funds are controlled by PMA Capital.
6. These Shares comprise 11,990,000 existing Shares and 76,272,000 underlying Shares which would be issued upon exercise of the subscription rights attaching to 76,272,000 2006 Warrants.
7. These Shares are existing Shares held by Leader Gain Limited of which the entire issued share capital is held by Ms. AZUMA Sarina.
8. For the purpose of this section, the shareholding percentage in the Company is calculated on the basis of 1,093,971,156 Shares in issue as at 30 June 2007.

As at 30 June 2007 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.

Other Information

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

Model Code for Securities 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 2007.

Audit Committee

The 2007 interim report has been reviewed by the Company's Audit Committee and external auditor of the Company.

By order of the Board
Yu Pan
Chairman

Hong Kong, 24 September 2007