



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

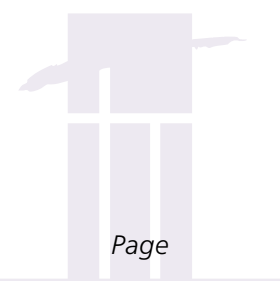
*(Incorporated in Bermuda with limited liability)*  
*(Stock Code: 00059)*

INTERIM REPORT

08



An artist's impression of the Guiyang Project



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## CORPORATE INFORMATION

### Directors

#### **Executive Directors:**

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

#### **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: 00059

### Head Office and Principal Place of Business

2502B, Tower 1, Admiralty Centre,  
18 Harcourt Road, Hong Kong.  
Telephone: (852) 2111 2259  
Facsimile: (852) 2890 4459  
Website: www.sfr59.com

### 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.  
Richards Butler

#### **Bermuda Laws:**

Conyers Dill & Pearman



# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

### Results

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

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

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

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

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

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

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





# MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

## Business Review *(Continued)*

### **Property Development Business**

#### *Zhoutouzui Project*

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

#### *Tianhe Project*

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

#### *Guiyang Project*

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

#### *Skyfame Tower*

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

### **Property Investment Business**

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

## **Outlook**

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



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Liquidity and Financial Resources

#### **Capital Structure and Liquidity**

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

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

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

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

#### **Borrowings and Pledge of Assets**

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



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### Foreign Currency Management

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in Renminbi ("RMB"), the functional currency of the Company's principal subsidiaries. At the same time, certain financing activities of the Group are denominated in other currencies, such as the convertible notes, are denominated in US dollars and the loan from several investment funds and a financial institution are denominated in HK dollars.

Due to the appreciation of RMB against HK and US dollars during the period, there arises a foreign exchange reserve surplus of HK\$192.9 million from the consolidation of the assets and liabilities of PRC subsidiaries. The surplus adds to the equity attributable to shareholders of the Company.

Since both of the US and HK dollars are pegged whilst RMB moves within narrow extents with the US and HK dollars, the Group foresees no significant foreign currency exposure in the near future. Further, the Group foresees rises in the exchange rates of RMB against HK dollars in the coming period, such fluctuations will not have unfavourable effect on the financial position of the Group. For these reasons, the Group does not hedge against its foreign currency risk. However, any permanent or significant changes in the exchange rates in RMB for HK and US dollars and changes in the peg system of US dollars with HK dollars may have possible impact on the Group's results and financial position.

### Material Acquisition During the Period

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

### Contingent Liabilities

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

### Employees

To keep pace with the growth of the Group after the acquisitions, the Group continues to recruit suitable staff in capable caliber. As at 30 June 2008, other than the Executive Directors, the Group employed 692 staff of which 550 were for hotel operation and 142 for property development and central management. During the period, total staff costs were HK\$38.1 million, which is a 141% rise from last corresponding period as a result of the increased headcount and new remuneration policies in the PRC subsidiaries that revamping the pay scales and are commensurate with skills and talents of staff at all levels. Of the total staff costs, HK\$2.3 million were capitalised as property development costs. Employees are remunerated according to qualifications and experience, job nature and performance. Remuneration packages are aligned with job markets in the business 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 2008, together with comparative figures for the corresponding period of 2007. The unaudited consolidated interim results have been reviewed by the audit committee of the Company.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

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





## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	1,085,912	1,017,087
Prepaid lease payments – non-current portion	10	857,245	223,808
Investment properties	10	521,931	492,325
Properties held for development		1,717,907	1,529,339
Goodwill		135,119	118,088
Deposits paid for acquisition of land use right		–	32,408
		<b>4,318,114</b>	<b>3,413,055</b>
<b>Current assets</b>			
Properties held for sale		659,236	603,427
Prepaid lease payments – current portion	10	480,225	445,191
Inventories		28,167	31,790
Trade and other receivables	11	41,864	31,016
Restricted and pledged deposits	12	97,321	358,711
Cash and cash equivalents		69,807	63,338
		<b>1,376,620</b>	<b>1,533,473</b>
<b>Current liabilities</b>			
Trade and other payables	13	385,615	241,904
Bank and other borrowings – current portion	14	396,015	242,790
Income tax payable		23,283	24,161
		<b>804,913</b>	<b>508,855</b>
<b>Net current assets</b>		<b>571,707</b>	<b>1,024,618</b>
<b>Total assets less current liabilities</b>		<b>4,889,821</b>	<b>4,437,673</b>
<b>Non-current liabilities</b>			
Other payable	13	63,573	63,573
Bank and other borrowings – non-current portion	14	934,255	940,339
Convertible notes	15	250,791	211,946
Financial derivative liabilities	15	555,395	1,081,572
Loan from minority shareholder of a subsidiary	16	281,664	–
Deferred tax liabilities		478,747	453,561
		<b>2,564,425</b>	<b>2,750,991</b>
<b>Net assets</b>		<b>2,325,396</b>	<b>1,686,682</b>
<b>Capital and reserves</b>			
Share capital	17	14,777	14,659
Reserves		2,305,853	1,672,023
<b>Equity attributable to equity holders of the Company</b>		<b>2,320,630</b>	<b>1,686,682</b>
<b>Minority interests</b>		<b>4,766</b>	<b>–</b>
<b>Total equity</b>		<b>2,325,396</b>	<b>1,686,682</b>



# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the Company											Minority interests	Total
	Share capital	Share premium	Contributed surplus reserve	Share-based payment reserve	Property revaluation reserve	Merger reserve	Statutory reserves	Other reserves	Foreign exchange reserve	Retained profits	Sub-total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Six months ended 30 June 2008</b>													
At 1 January 2008 (Audited)	14,659	1,210,992	15,497	16,146	84,842	(301,662)	6,108	2,049	189,365	448,686	1,686,682	-	1,686,682
Expenses incurred on issue of shares	-	(9)	-	-	-	-	-	-	-	-	(9)	-	(9)
Exchange differences arising on consolidation of overseas entities	-	-	-	-	-	-	-	-	192,920	-	192,920	5,107	198,027
Net (expenses) income recognised directly in equity	-	(9)	-	-	-	-	-	-	192,920	-	192,911	5,107	198,018
Profit (loss) for the period	-	-	-	-	-	-	-	-	-	426,094	426,094	(341)	425,753
Total recognised (expenses) income for the period	-	(9)	-	-	-	-	-	-	192,920	426,094	619,005	4,766	623,771
Conversion of convertible notes	116	13,555	-	-	-	-	-	-	-	-	13,671	-	13,671
Issue of shares:													
- Exercise of bonus warrants	-	7	-	-	-	-	-	-	-	-	7	-	7
- Exercise of share options	2	411	-	(73)	-	-	-	-	-	-	340	-	340
Transfer to reserve	-	-	-	-	-	-	-	1,582	-	(1,582)	-	-	-
Reallocation of expired options from the share-based payment reserve to retained profits	-	-	-	(527)	-	-	-	-	-	527	-	-	-
Recognition of equity-settled share-based payment expenses	-	-	-	925	-	-	-	-	-	-	925	-	925
	118	13,973	-	325	-	-	-	1,582	-	(1,055)	14,943	-	14,943
At 30 June 2008 (Unaudited)	14,777	1,224,956	15,497	16,471	84,842	(301,662)	6,108	3,631	382,285	873,725	2,320,630	4,766	2,325,396
<b>Six months ended 30 June 2007</b>													
At 1 January 2007, as restated (Audited)	12,354	724,718	15,497	3,584	-	(301,662)	6,108	-	19,264	241,657	721,520	45,345	766,865
Exchange differences arising on consolidation of overseas entities	-	-	-	-	-	-	-	-	48,810	-	48,810	8,936	57,746
Net income recognised directly in equity	-	-	-	-	-	-	-	-	48,810	-	48,810	8,936	57,746
Loss for the period	-	-	-	-	-	-	-	-	-	(113,794)	(113,794)	-	(113,794)
Total recognised income (expenses) for the period	-	-	-	-	-	-	-	-	48,810	(113,794)	(64,984)	8,936	(56,048)
Issue of shares:													
- Convertible preference shares	1,904	378,587	-	-	-	-	-	-	-	-	380,491	-	380,491
- Exercise of bonus warrants	41	4,469	-	-	-	-	-	-	-	-	4,510	-	4,510
Recognition of equity-settled share-based payment expenses	-	-	-	4,962	-	-	-	-	-	-	4,962	-	4,962
Acquisition of minority interests in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(54,281)	(54,281)
	1,945	383,056	-	4,962	-	-	-	-	-	-	389,963	(54,281)	335,682
At 30 June 2007, as restated (Unaudited)	14,299	1,107,774	15,497	8,546	-	(301,662)	6,108	-	68,074	127,863	1,046,499	-	1,046,499



## CONDENSED CONSOLIDATED CASHFLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited and restated)
<b>Net cash generated from (used in) operating activities</b>	<b>110,580</b>	(42,734)
<b>Investing activities</b>		
Acquisition of subsidiaries	–	(944,240)
Additions to prepaid lease payments	<b>(393,565)</b>	–
Additions to properties held for development	<b>(46,529)</b>	(100,963)
Purchase of property, plant and equipment	<b>(44,565)</b>	(23,645)
Other investing cashflows	<b>353</b>	(979)
Net cash used in investing activities	<b>(484,306)</b>	(1,069,827)
<b>Financing activities</b>		
Proceeds from convertible notes	–	1,562,380
Payment of issuing cost for convertible notes	–	(57,427)
Restricted and pledged deposits for convertible notes and other borrowing	<b>(61)</b>	(361,952)
Proceeds from short-term loan	<b>108,480</b>	–
New bank and other borrowings raised	–	68,801
Repayment of bank and other borrowings	<b>(21,326)</b>	(4,482)
Repayment of cash advances from a related company	–	(29,080)
Loan from minority shareholder of a subsidiary	<b>280,009</b>	–
Other financing cashflows	<b>338</b>	4,510
Net cash from financing activities	<b>367,440</b>	1,182,750
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(6,286)</b>	70,189
<b>Effect of foreign exchange rate changes</b>	<b>12,755</b>	1,844
<b>Cash and cash equivalents at beginning of period</b>	<b>63,338</b>	47,993
<b>Cash and cash equivalents at end of period</b>		
– Cash and bank balances	<b>69,807</b>	120,026



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

## 1. Basis of preparation

These unaudited condensed consolidated financial statements for the six months ended 30 June 2008 ("Interim Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

## 2. Business combination under common control

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

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008

### 3. Principal accounting policies

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

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

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2008

<sup>4</sup> Effective for annual periods beginning on or after 1 October 2008



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008



## 3. Principal accounting policies (Continued)

The adoption of HKFRS 3 (Revised) may affect the accounting policy on business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The adoption of HKAS 27 (Revised) may affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The adoption of HK(IFRIC) – Interpretation 15 may affect the accounting treatment on revenue recognition of an entity engaged in the construction of real estate. However, the Group's current accounting policy is in compliance with HK(IFRIC) – Interpretation 15. Except for these, the Directors anticipate that the application of the other new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

## 4. Revenue and segment information

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

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008

### 4. Revenue and segment information (Continued)

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

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Project management HK\$'000	Eliminations HK\$'000	Unallocated HK\$'000	Total HK\$'000
<b>Results for the six months ended</b>							
<b>30 June 2008 (Unaudited)</b>							
Segment revenue	12,245	11,429	125,284	-	-	-	148,958
Segment results	(7,376)	6,791	1,787	511			1,713
Unallocated operating expenses							(13,712)
Loss from operations							(11,999)
Fair value changes in financial derivative liabilities							514,691
- convertible notes							(81,709)
Finance costs							2,189
Finance income							
Profit before income tax							423,172
Income tax credit							2,581
Profit for the period							425,753
<b>Other segment information</b>							
Capital expenditure	718,352	-	40,278	-	-	12,624	771,254
Depreciation	69	5	34,869	-	-	2,005	36,948
Amortisation	10,353	-	2,992	-	-	626	13,971
<b>Results for the six months ended</b>							
<b>30 June 2007 (Unaudited and restated)</b>							
External revenue	505	8,145	9,734	1,776	-	-	20,160
Inter-segment revenue	-	251	-	-	(251)	-	-
Segment revenue	505	8,396	9,734	1,776	(251)	-	20,160
Segment results	(2,546)	6,585	(9,203)	(191)			(5,355)
Unallocated operating expenses							(25,469)
Loss from operations							(30,824)
Fair value changes in investment properties	-	10,150	-	-			10,150
Fair value changes in financial derivative liabilities							(28,101)
- convertible notes							(498)
- convertible preference shares							(26)
Share of loss of associate, net of tax	(26)	-	-	-			(63,906)
Finance costs							5,650
Finance income							
Loss before income tax expense							(107,555)
Income tax expense							(6,239)
Loss for the period							(113,794)
<b>Other segment information</b>							
Capital expenditure	2,026	-	148,631	2	-	49	150,708
Depreciation	134	19	4,561	10	-	392	5,116
Amortisation	852	-	670	-	-	-	1,522

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008



## 5. Loss from operations

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

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008

### 6. Finance costs and income

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008

### 7. Income tax credit (expense)

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

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

Enterprise income tax (“EIT”) arising from The People’s Republic of China (the “PRC”) is calculated at 25% (six months ended 30 June 2007: 33%) of the estimated assessable profits. Taxation for the Group’s operations outside Hong Kong is provided at the applicable current rates of taxation on the estimated assessable profits in the relevant jurisdiction during the period.

The provision of PRC land appreciation tax (“LAT”) is estimated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided, as appropriate, at ranges of progressive rates from 30% to 60% on the appreciation value, with certain allowable deductions including land costs, borrowing costs and the relevant property development expenditure.

### 8. Dividends

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



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008



### 9. Earnings (loss) per share attributable to ordinary equity holders of the Company

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

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited and restated)
Earnings (loss) for the purpose of calculation of basic and diluted earnings (loss) per share	<b>426,094</b>	(113,794)
	<b>Number of shares</b>	
	<b>'000</b>	'000
	<b>(Unaudited)</b>	(Unaudited and restated)
Weighted average number of ordinary shares for the purpose of calculation of basic earnings (loss) per share	<b>1,476,890</b>	1,091,261
Effect of dilutive potential ordinary share:		
– Bonus warrants	<b>33,505</b>	
– Share options	<b>524</b>	
Weighted average number of ordinary shares for the purpose of calculation of diluted earnings per share	<b>1,510,919</b>	N/A

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

### 10. Property, plant and equipment, prepaid lease payments and investment properties

The movements of the property, plant and equipment, prepaid lease payments and investment properties are as follows:

	<b>Property, plant and equipment HK\$'000</b>	<b>Prepaid lease payments HK\$'000</b>	<b>Investment properties HK\$'000</b>
Net book amount at 1 January 2008 (Audited)	<b>1,017,087</b>	<b>668,999</b>	<b>492,325</b>
Additions	<b>44,565</b>	<b>627,634</b>	–
Depreciation	<b>(36,948)</b>	–	–
Amortisation	–	<b>(13,971)</b>	–
Exchange differences	<b>61,208</b>	<b>54,808</b>	<b>29,606</b>
Net book amount at 30 June 2008 (Unaudited)	<b>1,085,912</b>	<b>1,337,470</b>	<b>521,931</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008



## 11. 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:

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
Current	<b>5,819</b>	3,832
Less than 1 month past due	<b>425</b>	156
1 to 3 months past due	<b>2,489</b>	1,892
More than 3 months but less than 12 months past due	<b>603</b>	1,154
More than 1 year past due	<b>639</b>	603
Amount past due at balance sheet date but not impaired	<b>4,156</b>	3,805
Total trade receivables	<b>9,975</b>	7,637
Loan receivable	–	9,192
Deposits, prepayments and other receivables	<b>31,889</b>	14,187
	<b>41,864</b>	31,016

The management has a formal credit policy in place and the exposure to credit risk is monitored through regular reviews of receivables and follow-up enquires on overdue accounts. Credit evaluations are performed on all customers requiring credit over a certain amount.

The Group did not make any impairment loss on trade and other receivables during the period (six months ended 30 June 2007: HK\$Nil).

The loan receivable was unsecured, interest bearing at a rate of 6.58% per annum and was fully repaid in January 2008.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008



## 12. Restricted and pledged deposits

As at 30 June 2008, to secure for the repayment of interests accrued in the convertible notes (as disclosed in *note 15*) and the short-term other borrowing due to several investment funds and a financial institution (as disclosed in *note 14*), bank deposits totalling approximately HK\$97 million (31 December 2007: HK\$359 million) were charged in favour of the security trustees acting for the convertible noteholders, several investment funds and a financial institution.

## 13. Trade and other payables

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

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Current or less than 1 month		3,602	8,462
1 to 3 months		3,480	3,467
More than 3 months but less than 12 months		3,920	1,583
More than 12 months		3,891	4,743
Total trade payables		14,893	18,255
Retention money payable for construction costs	(a)	35,720	25,649
Construction costs payable		98,746	128,944
Balance of consideration payable for acquisition of a subsidiary	(b)	63,573	63,573
Advanced payments received from customers	(c)	149,827	8,196
Accruals and other payables		86,429	60,860
		449,188	305,477
Amounts due within one year included in current liabilities		(385,615)	(241,904)
Amount due after one year		63,573	63,573

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 but are within the normal operating cycle of the property development business of the Group.
- (b) This represents balance of consideration payable to the vendor for acquisition of a subsidiary in 2006. 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 one of the property development projects, bearing an interest rate of 8% per annum from the date of issue. The issue of land use right certificate is expected to take place in 2009.
- (c) The amount comprised (i) instalment deposits received from buyers in connection with the Group's contracted sales of properties held for sale; and (ii) receipts in advance, rental and other deposits from customers and/or tenants.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008

### 14. Bank and other borrowings

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
Interest-bearing, secured			
– bank borrowings, denominated in Renminbi	(a)	999,213	963,129
– other borrowing, denominated in Hong Kong dollars	(b)	220,000	220,000
Non-interest bearing, unsecured			
– short-term loan, denominated in Renminbi	(c)	111,057	–
		<b>1,330,270</b>	1,183,129
Amount due within one year included in current liabilities		<b>(396,015)</b>	(242,790)
Amounts due after one year		<b>934,255</b>	940,339

Notes:

- (a) As at 30 June 2008, the bank borrowings are secured by mortgages of ownership titles of (i) the properties held for sale excluding those properties contracted to be sold, (ii) prepaid lease payments, (iii) hotel and office building grouped under "property, plant and equipment", and (iv) investment properties with an aggregate carrying value of approximately HK\$2,746 million (31 December 2007: approximately HK\$2,750 million). The bank loans carried interest at variable market rates ranging from 7.44% to 8.61% per annum. The amounts will be fully repaid in 2010, 2013 and 2015.
- (b) The other borrowing is secured by a time deposit of approximately HK\$21 million (31 December 2007: approximately HK\$21 million), a mortgage of shares, an assignment of interest and benefits in the shareholder loan to subsidiary, and fixed and floating charge of assets in subsidiaries of the Group engaged in property development and is repayable on 29 January 2009. The borrowing was originally repayable by 28 April 2008 which was extended to 29 January 2009 during this period. It carries variable interest at HIBOR plus 10.25% per annum.
- (c) The balance is unsecured, interest-free and has no fixed terms of repayment but is expected to repayable within twelve months.



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008

### 15. Convertible notes and financial derivative liabilities

The convertible notes in the aggregate principal amount of US\$200 million (equivalent to approximately HK\$1,562 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 performance of the Company's share price to the extent of HK\$1.00 per share. Unless previously redeemed, converted or repurchased and cancelled, the Company shall redeem each note at 201.33% of its principal amount on the maturity date which is due on 3 May 2013.

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

The movements of loan and financial derivative liability components of convertible notes are as follows:

	Nominal value	Liability component (Note)	Financial derivative liability components	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amount at 1 January 2007 (Audited)	–	–	–	–
Issue of convertible notes	1,562,380	175,545	1,386,835	1,562,380
Issue costs	–	(6,567)	–	(6,567)
Accrued interest expense	–	78,348	–	78,348
Interest paid	–	(30,311)	–	(30,311)
Conversion of convertible notes	(46,871)	(5,069)	(37,474)	(42,543)
Fair value changes in financial derivative liabilities of convertible notes	–	–	(267,789)	(267,789)
Carrying amount at 31 December 2007 and at 1 January 2008 (Audited)	<b>1,515,509</b>	<b>211,946</b>	<b>1,081,572</b>	<b>1,293,518</b>
Accrued interest expense	–	<b>71,027</b>	–	<b>71,027</b>
Interest paid	–	<b>(29,997)</b>	–	<b>(29,997)</b>
Conversion of convertible notes	<b>(15,624)</b>	<b>(2,185)</b>	<b>(11,486)</b>	<b>(13,671)</b>
Fair value changes in financial derivative liabilities of convertible notes	–	–	<b>(514,691)</b>	<b>(514,691)</b>
Carrying amount at 30 June 2008 (Unaudited)	<b>1,499,885</b>	<b>250,791</b>	<b>555,395</b>	<b>806,186</b>

Note: Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 60.58% per annum to the liability component.





## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008

### 15. Convertible notes and financial derivative liabilities (Continued)

As at 30 June 2008, the Group's obligations under convertible notes to the noteholders are secured by (i) restricted and pledged deposits of approximately HK\$76 million (31 December 2007: HK\$338 million), (ii) shares of certain intermediate holding companies of the property development subsidiaries of the Group and (iii) shares of the Company beneficially held by Mr. Yu Pan, details of which have been disclosed in *note 19(c)*.

### 16. Loan from minority shareholder of a subsidiary

The balance is unsecured, interest-free and has no fixed terms of repayment but is expected not to be repayable within twelve months.

### 17. Share capital

	Number of shares			Nominal value		
	Ordinary share of HK\$0.01 each '000	Convertible preference share of HK\$0.01 each '000	Total '000	Ordinary share capital HK\$'000	Convertible preference share capital HK\$'000	Total HK\$'000
<b>Authorised:</b>						
At 1 January 2007 (Audited)	30,000,000	-	30,000,000	300,000	-	300,000
Change in authorised capital	(1,000,000)	1,000,000	-	(10,000)	10,000	-
At 31 December 2007 (Audited) and 30 June 2008 (Unaudited)	<u>29,000,000</u>	<u>1,000,000</u>	<u>30,000,000</u>	<u>290,000</u>	<u>10,000</u>	<u>300,000</u>
<b>Issued and fully paid:</b>						
At 1 January 2007, as previously stated	1,089,871	-	1,089,871	10,899	-	10,899
Effect of combination under common control						
- Issue of convertible preference shares	-	145,537	145,537	-	1,455	1,455
At 1 January 2007, as restated (Audited)	1,089,871	145,537	1,235,408	10,899	1,455	12,354
Issue of shares:						
- Convertible preference shares	-	190,447	190,447	-	1,905	1,905
- Conversion of convertible preference shares	335,984	(335,984)	-	3,360	(3,360)	-
- Conversion of convertible notes	34,720	-	34,720	347	-	347
- Exercise of bonus warrants	5,272	-	5,272	53	-	53
At 31 December 2007 and at 1 January 2008 (Audited)	<u>1,465,847</u>	<u>-</u>	<u>1,465,847</u>	<u>14,659</u>	<u>-</u>	<u>14,659</u>
Issue of shares:						
- Conversion of convertible notes	11,573	-	11,573	116	-	116
- Exercise of bonus warrants	6	-	6	-	-	-
- Exercise of share options	260	-	260	2	-	2
At 30 June 2008 (Unaudited)	<u>1,477,686</u>	<u>-</u>	<u>1,477,686</u>	<u>14,777</u>	<u>-</u>	<u>14,777</u>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008

### 18. Equity-settled share-based transactions

The Company has adopted a share option scheme (the “2005 Scheme”) for eligible employees of the Group and certain non-employees.

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 six months ended 30 June 2008:

Date of grant	Exercise period	Vesting period	Exercise price	Number of options outstanding at beginning of the period	Options exercised during the period	Options lapsed during the period	Number of options outstanding at end of the period
12 September 2006	13 March 2007 to 31 July 2015	Six months from the date of grant	HK\$1.31	21,268,000	(260,000)	(538,000)	20,470,000
12 September 2006	13 March 2008 to 31 July 2015	One and a half years from the date of grant	HK\$1.31	21,268,000	–	(798,000)	20,470,000
12 September 2006	13 March 2009 to 31 July 2015	Two and a half years from the date of grant	HK\$1.31	21,314,000	–	(804,000)	20,510,000
				63,850,000	(260,000)	(2,140,000)	61,450,000
<b>Analysis of category:</b>							
				9,800,000	–	–	9,800,000
				14,900,000	(260,000)	(2,140,000)	12,500,000
				39,150,000	–	–	39,150,000
				63,850,000	(260,000)	(2,140,000)	61,450,000

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

(Continued)

For the six months ended 30 June 2008

## 19. Related party transactions

### (a) Material transactions with related parties

Related party relationship	Type of transaction	Six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited and restated)
Mr. Yu Pan, a director of the Company	Waiver of amount due from the director by a subsidiary prior to its acquisition by the Group	–	12,853
Grand Cosmos Holdings Limited ("Grand Cosmos"), the immediate holding company of the Company	(a) Fair value of consideration paid for acquisition of 29% equity interest in a subsidiary	–	407,346
	(b) Fair value of consideration paid for acquisition of 100% equity interest in a subsidiary	–	301,662
Companies beneficially owned by Mr. Yu Pan	Guarantee given to bank in respect of credit facilities granted to related companies	–	32,714
Companies controlled by Mr. Yu Pan	Rental income received from office leasing	<b>3,163</b>	–
Employees and consultants of companies beneficially owned by Mr. Yu Pan	Share-based payment expenses	–	3,042
Other shareholders of subsidiaries	(a) Fair value of consideration paid for acquisition of equity interest in subsidiaries	–	773,399
	(b) Imputed interest on loan from minority shareholder of a subsidiary	–	6,020
		<b>3,163</b>	

### (b) Amounts due to related parties

Related party relationship	Type of the balances due to related companies	30 June	31 December
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Audited)
Companies controlled by Mr. Yu Pan	Rental deposits received from related companies	<b>1,878</b>	262
Minority shareholder of a subsidiary	Loan from minority shareholder of a subsidiary	<b>281,664</b>	–
		<b>283,542</b>	

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008



## 19. Related party transactions (Continued)

### (c) Pledge of shares by controlling shareholder

To secure for the convertible notes with a principal value of US\$200 million issued by the Company as disclosed in *note 15*, Sharp Bright International Limited ("Sharp Bright") and Grand Cosmos, companies wholly owned by Mr. Yu Pan, pledged their assets in favour of the trustee of the noteholders as follows:

- (i) 963,776,271 ordinary shares of the Company;
- (ii) 3,000 units of the warrants of the Company issued in 2006; and
- (iii) first fixed charge and first floating charge over the assets of Sharp Bright and Grand Cosmos.

### (d) Compensation of key management personnel

The remuneration of Directors and other members of key management during the period was as follows:

	<b>Six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Short-term employee benefits	<b>8,963</b>	4,639
Other long-term employee benefits	<b>148</b>	48
Share-based payment expenses	<b>524</b>	1,088
	<b>9,635</b>	5,775

Members of key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including Directors and executive officers.

## 20. Capital commitments

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2008



## 21. Contingent liabilities

As at 30 June 2008, the Group had no material contingent liabilities (31 December 2007: HK\$Nil).

## 22. Event after the balance sheet date

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

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

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





## OTHER INFORMATION

### Interim Dividend

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

### Directors' and Chief Executives' Interests in Shares and Underlying Shares

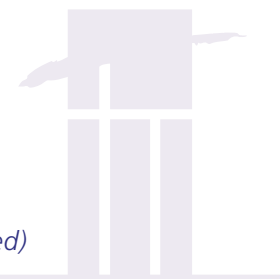
As at 30 June 2008, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were 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), 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 for Securities Transactions by Directors of Listed Companies ("Model Code") of the Listing Rules, to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange"), were as follows:

#### (a) 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	1,099,041,271 (note 1)	74.38% (note 2)

#### Notes:

1. These Shares comprised (i) 92,530,000 existing Shares and 42,732,000 underlying Shares which would be issued pursuant to the exercise of the subscription rights attaching to 42,732,000 2006 Warrants held directly by Mr. Yu Pan; and (ii) 963,776,271 existing Shares and 3,000 underlying Shares attached to the 2006 Warrants held directly by Grand Cosmos. The entire issued share capital of Grand Cosmos was held by Sharp Bright, the entire issued share capital of which was held by Mr. Yu Pan. The 963,776,271 Shares and 3,000 underlying Shares were charged in favour of the security trustee by way of a share charge dated 4 May 2007. The 2006 Warrants were expired on 1 August 2008.
2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 1,477,686,419 Shares in issue as at 30 June 2008.



## OTHER INFORMATION *(Continued)*

### Directors' and Chief Executives' Interests in Shares and Underlying Shares *(Continued)*

#### **(b) Interests in Underlying Shares Arising from Share Options**

As at 30 June 2008, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme:

<b>Name of Director</b>	<b>Exercise price (HK\$)</b>	<b>Exercise period</b>	<b>Number of underlying Shares</b>	<b>Approximate shareholding percentage <i>(note)</i></b>
Mr. Wen Xiao Bing	1.31	13 March 2007 to 31 July 2015	5,000,000	0.34%
Mr. Lau Yat Tung, Derrick	1.31	13 March 2007 to 31 July 2015	3,000,000	0.20%
Mr. Choy Shu Kwan	1.31	13 March 2007 to 31 July 2015	600,000	0.04%
Mr. Cheng Wing Keung, Raymond	1.31	13 March 2007 to 31 July 2015	600,000	0.04%
Ms. Chung Lai Fong	1.31	13 March 2007 to 31 July 2015	600,000	0.04%

*Note:*

For the purpose of this section, the shareholding percentage in the Company was calculated on the basis of 1,477,686,419 Shares in issue as at 30 June 2008.

Save as disclosed above, as at 30 June 2008, 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), 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 of the Listing Rules, to be notified to the Company and the Stock Exchange.



## OTHER INFORMATION *(Continued)*

### Substantial Shareholders

At 30 June 2008, 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 as recorded in the register required to be kept by the Company under Section 336 of the SFO:

#### ***Interests in the Shares or Underlying Shares***

Name of shareholder	Capacity	Number of Shares and underlying Shares	Approximately percentage <i>(note 7)</i>
Sharp Bright	Interest of controlled corporation	963,779,271 (long) <i>(note 1)</i>	65.22%
Grand Cosmos	Beneficial owner	963,779,271 (long) <i>(note 1)</i>	65.22%
Merrill Lynch & Co., Inc.	Interests of controlled corporation and/or person having a security interest in Shares	1,516,934,271 (long) <i>(note 2)</i>	102.66%
Lehman Brothers Holdings Inc.	Interests of controlled corporation and/or person having a security interest in Shares	979,290,355 (long) <i>(note 3)</i>	66.27%
	Interests of controlled corporation	2,700,000 (short)	0.18%
DKR Capital Inc.	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,250,486,904 (long) <i>(note 4)</i>	84.62%



## OTHER INFORMATION *(Continued)*

### Substantial Shareholders *(Continued)*

#### Interests in the Shares or Underlying Shares *(Continued)*

Name of shareholder	Capacity	Number of Shares and underlying Shares	Approximately percentage <i>(note 7)</i>
DKR Management Co., Inc.	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,250,486,904 (long) <i>(note 4)</i>	84.62%
DKR Capital Partners LP	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,250,486,904 (long) <i>(note 4)</i>	84.62%
DKR Oasis Management Co. LP	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,250,486,904 (long) <i>(note 4)</i>	84.62%
DKR SoundShore Oasis Holding Fund Ltd.	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,250,486,904 (long) <i>(note 4)</i>	84.62%
Oasis Management Holdings LLC	Interests of controlled corporation and/or person having a security interest in Shares and/or parties to an agreement under s.317(1)(b) and s.318 of the SFO	1,250,486,904 (long) <i>(note 4)</i>	84.62%



## OTHER INFORMATION *(Continued)*

### Substantial Shareholders *(Continued)*

#### **Interests in the Shares or Underlying Shares** *(Continued)*

Name of shareholder	Capacity	Number of Shares and underlying Shares	Approximately percentage <i>(note 7)</i>
Deutsche Bank Aktiengesellschaft	Person having a security interest in Shares	85,505,606 (long)	5.79%
PMA Capital Management Limited	Investment manager and/or person having a security interest in Shares	1,100,496,221 (long) <i>(note 5)</i>	74.47%
PMA Prospect Fund	Beneficial owner and/or person having a security interest in Shares	1,061,609,313 (long) <i>(note 5)</i>	71.84%
PMA Focus Fund	Beneficial owner and/or person having a security interest in Shares	991,902,111 (long) <i>(note 5)</i>	67.13%
Dalton Greater China (Master) Fund	Beneficial owner and/or person having a security interest in Shares	1,005,516,771 (long) <i>(note 6)</i>	68.05%
Dalton Investments LLC	Investment manager	1,029,816,771 (long) <i>(note 6)</i>	69.69%

*Notes:*

- These Shares comprised 963,776,271 existing Shares and 3,000 underlying Shares which would be issued pursuant to the exercise of the subscription rights attaching to 3,000 2006 Warrants held directly by Grand Cosmos. As the entire issued share capital of Grand Cosmos was held by Sharp Bright, Sharp Bright was deemed to be interested in the Shares and underlying Shares in which Grand Cosmos was interested by virtue of the SFO. As the entire issued share capital of Sharp Bright was held by Mr. Yu Pan, Mr. Yu Pan was deemed to be interested in the Shares and underlying Shares in which Sharp Bright was interested by virtue of SFO. The 963,779,271 Shares (which included the underlying interest in 3,000 2006 Warrants) were charged in favour of the security trustee by way of share charge dated 4 May 2007. The 2006 Warrants were expired on 1 August 2008.



## OTHER INFORMATION *(Continued)*

### Substantial Shareholders *(Continued)*

#### ***Interests in the Shares or Underlying Shares (Continued)***

2. These Shares comprised (i) 6,322,000 existing Shares; (ii) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; 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 reset conversion price of HK\$1.00 held directly or indirectly by ML Asian R.E. Fund GP, L.L.C., ML Asian R.E. GP, L.P., Merrill Lynch Asian Real Estate Opportunity Fund, L.P., 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, Merrill Lynch International (indirectly wholly owned by Merrill Lynch & Co. Inc.), Merrill Lynch Asian Real Estate Fund Manager Pte Ltd. and its sub-advisors. All of these entities were controlled by Merrill Lynch & Co., Inc.
3. These Shares comprised (i) 7,699,184 existing Shares; (ii) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and 7,811,900 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the reset conversion price of HK\$1.00 held directly or indirectly by Lehman Brothers Commercial Corporation Asia Limited, LBCCA Holdings I LLC., LBCCA Holdings II LLC. All these entities were controlled by Lehman Brothers Holdings Inc.
4. These Shares comprised (i) 8,951,185 existing Shares; (ii) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; and (iii) 277,756,448 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. The conversion price of the Notes has been reset to HK\$1.00 with effect from 4 August 2008.
5. These Shares comprised (i) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; (ii) 19,538,450 underlying Shares which would be issued upon exercise of the subscription rights attaching to 19,538,450 2006 Warrants held by PMA Prospect Fund (as to 8,774,382 underlying Shares) and Diversified Asian Strategies Fund (as to 10,764,068 underlying Shares); and (iii) 117,178,500 underlying Shares which would be issued exercise of the conversion rights attaching to the Notes at the reset conversion price of HK\$1.00 held by PMA Prospect Fund (as to 89,055,660 underlying Shares) and PMA Focus Fund (as to 28,122,840 underlying Shares). All of these funds were controlled by PMA Capital Management Limited. The 2006 Warrants were expired on 1 August 2008.
6. These Shares comprised (i) 963,779,271 Shares and underlying Shares charged in favour of the security trustee (who held the benefit on trust for the noteholders) by Grand Cosmos and Mr. Yu Pan; (ii) 26,978,000 existing Shares held directly or indirectly by Dalton Investments LLC (including 2,678,000 Shares held by Dalton Greater China (Master) Fund); and (iii) 39,059,500 underlying Shares which would be issued upon exercise of the conversion rights attaching to the Notes at the reset conversion price of HK\$1.00 held directly or indirectly by Dalton Investments LLC and Dalton Greater China (Master) Fund. The latter was managed by Dalton Investments LLC.
7. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 1,477,686,419 Shares in issue as at 30 June 2008.

Save as disclosed above, as at 30 June 2008, the Company had not been notified by any persons or corporations who had any long or short position in the Shares and/or underlying Shares, which were required to be recorded in the register required to be kept by the Company pursuant to section 336 of Part XV of the SFO.



## **OTHER INFORMATION** *(Continued)*

### **Share Options**

During the period, no share options were granted under the 2005 Scheme. 260,000 share options previously granted under the 2005 Scheme were exercised and 2,140,000 share options were lapsed. There were 61,450,000 share options outstanding as at 30 June 2008.

### **Corporate Governance**

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the Interim Finance Statements, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities (“Listing Rules”) except for code provision A2.1, where the roles of chairman and chief executive officer of the Company is not separated as required but is currently performed by the same individual.

Due to the small size of the team, both the roles of the chairman and chief executive officer of the Company are played by Mr. Yu Pan. The Board considers the currently simple but efficient management team serves sufficiently enough the need of the Group. The Board will, nonetheless, continue to review the business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the management team to ensure a proper balance of power and authority within the Company.

### **Model Code for Securities Transaction by Directors**

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

### **Purchase, Sale or Redemption of the Company’s Listed Securities**

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

### **Audit Committee**

The principal duties of the Audit Committee include the review of the Company’s financial reporting procedure, internal controls and results of the Group. The Interim Financial Statements have been reviewed by the Audit Committee.

By order of the Board

**Yu Pan**  
*Chairman*

Hong Kong, 22 September 2008