



INTERIM
REPORT 2009



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

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

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CORPORATE INFORMATION

Directors

Executive Directors:

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

Independent Non-executive Directors:

Choy Shu Kwan
Cheng Wing Keung, Raymond
Chung Lai Fong
Jerry Wu (*re-designated on 15 May 2009*)

Company Secretary

Cheung Lin Shun

Audit Committee

Choy Shu Kwan (*Chairman*)
Cheng Wing Keung, Raymond
Chung Lai Fong
Jerry Wu (*appointed on 15 May 2009*)

Remuneration Committee

Chung Lai Fong (*Chairman*)
Choy Shu Kwan
Cheng Wing Keung, Raymond
Yu Pan
Jerry Wu (*appointed on 15 May 2009*)

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

Company's Website

<http://www.sfr59.com>

Head Office and Principal Place of Business in the PRC

32nd to 33rd Floors of Skyfame Tower
8 Linhe Zhong Road, Tianhe District
Guangzhou, Guangdong Province, the PRC
Telephone: (86-20) 2208 2888
Facsimile: (86-20) 2208 2777

Principal Place of Business in Hong Kong

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

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
Industrial and Commercial Bank of China
Bank of China Limited

Auditors

BDO 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 and Outlook

Business Review

During the six months ended 30 June 2009, the Group recorded a total turnover of HK\$142 million (2008: HK\$149 million), a 4.6% decrease from the corresponding period in last year. The decrease in turnover was led by the adverse impact on the hotel operation in the aftermath of the economic crisis spread in the last quarter of 2008. Hotel revenue which as the major contributor of revenue, contributes to revenue of HK\$112 million (2008: HK\$125 million), shows a downward adjustment of 10%. Notwithstanding, rental income from the leasing of Skyfame Tower brought an increasing revenue of HK\$30 million to the Group (2008: HK\$24 million) as a result of the increasing occupancy.

The operating results present an EBITDA (profit before interest, income tax, depreciation and amortisation) of HK\$34 million (2008: HK\$35 million) before depreciation and amortisation of prepaid lease payment of HK\$48 million (2008: HK\$47 million) charged mainly for the hotel operation.

Finance costs, consisting of effective interests amortised on convertible notes, interests paid to banks and financial institutions on borrowings, so far not capitalised as development costs, amount to HK\$121 million (2008: HK\$82 million). The prices of the Company's shares during the period have bottomed up giving rise to an increase in the fair value of the liabilities in financial derivative embedded in the convertible notes. This results to an exceptional loss of HK\$264 million for the period whilst in the last period, there recorded a revaluation gain of HK\$515 million.

Whilst the property prices start to pick up in the period, based on valuation of the directors of the Company (the "Directors"), there has been no further adjustment in the revaluation of investment properties or write-down of goodwill in the acquired investments.

These factors combine to a loss attributable to shareholders of HK\$392 million (2008: gain of HK\$426 million) for the period.

Hotel Operation

Due to the lower passage of business travelers to Guangzhou as directly impacted by the financial crisis, the performance of The Westin Guangzhou was affected in both revenue and bottom line. The revenue was down by 10% but the hotel management could maintain a rather stable EBITDA despite the challenging environment. The hotel operation continues to contribute stable cash flow to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review and Outlook *(Continued)*

Investment Properties and Properties Held for Sale

Following the gradually increasing occupancy since occupation in late 2007 at the Skyfame Tower, consisting of 32,000m² for grade-A offices and 9,000m² for commercial podium, the office units achieved an occupancy of 83% and generated stable and satisfactory yield to the Group.

The Group also receives stable rental income from the leasing of about 20,000m² commercial podium at Tianyu Garden Phase 2 located next to Skyfame Tower. The property is now 64% occupied, tenanted with renowned corporations and the US consulate.

Properties Held for/Under Development

Guiyang Project

The development, which the Group holds a 55% stake, consisting of high-end residential apartments of a total GFA of approximately 480,000m² and community facilities. The first phase of the development for GFA of about 91,000m² has been launched for pre-sale in the second quarter of 2009 and are expected to be delivered for occupation in 2010. At the date of this report, some 54,000m² GFA, representing 60% of the total area launched, were pre-sold at an average selling price of RMB4,000.

Zhoutouzui Project

The management is going through procedures in connection with the approval of the design plan and transfer of the land use right certificate to the project company from the original user. Due to some unforeseeable changeovers in staffing in the governing authorities, unnecessary delays have been experienced which have impacted the timetable of the development. Nonetheless, the management expects the delays can be overcome.

Tianhe Project

Resettlement of the existing occupant of the land by means of building up a new fire station for the occupant has been undergone. The management is currently in active discussions with the Fire Bureau about the detailed contractual terms of the construction of the new fire station. Construction works of the new fire station are pending the conclusions of such discussions.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review and Outlook *(Continued)*

Going Concern

The Group is not in compliance with the trust deed entered into between the convertible noteholders (the "Noteholders") and the Company on ground that a subsidiary of the Company cannot obtain the land use right certificate and other permits in respect of the Zhoutouzui Project by 31 March 2009, and the non-payment of a term loan of HK\$220 million (the "Loan") which was due on 29 January 2009.

The Company has reached an agreement with the Noteholders for an extension to meet with the timeline to 31 May 2009 in obtaining the land use right certificate of Zhoutouzui Project or such a later date when the terms of the restructuring of the convertible notes are reached between the parties, or else the Noteholders are entitled to an early redemption of the convertible notes, with an outstanding principal amount of US\$192 million due 2013 (the "Notes"), for an amount of US\$75 million (approximately HK\$586 million) in principal and accrued interests (the "Automatic Redemption").

Currently, negotiations in relation to the restructuring of the Notes with the Noteholders are in progress though no resolutions have been reached so far. The claim for the Automatic Redemption is in standstill. At the same time, discussions with the lenders of the Loan continue despite the fact the lenders have not expressed an intention to a standstill to refrain from taking legal actions against the subsidiaries of the Company.

The Directors believe that the restructured terms of the Notes that may be reached in the coming months will relax certain terms and conditions of redemption of the Notes which will be in the interest of the Company.

The Interim Financial Statements are prepared using the going concern basis, a fundamental accounting concept adopted in the presentation of the Interim Financial Statements. The Directors considered carefully that the business of the Group is a going concern after having considered the assumptions and qualifications that have material effects on the foreseeable period covering the next twelve months since the statement of financial position date. Key assumptions are: (i) the general economic performance in the PRC and the specific industrial parameters affecting the hotel and real estate sectors are becoming stable; (ii) contractual terms offered from suppliers and creditors are not affected; (iii) no acceleration of the bank loan amortisation in the light of the potential claims; (iv) holders of the Notes will agree to refrain from exercising their rights of the Automatic Redemption and the put option which is exercisable from 4 May 2010 onwards; and (v) assets can be realised to provide sufficient funding to meet with the claims from lenders of the Loan and the Automatic Redemption of the Notes, should no restructuring plan be reached with the Noteholders.

Outlook

The global economy has shown ending signs of recession, though revival is yet to come. Business prospect to the Group is still very challenging despite the recent recovery in the real estate industry which is driven by the stimulus spending and loose monetary policies of the central government. We are yet to wait for the improving conditions in the hotel and property markets in general. Simultaneously, by strengthening the balance sheet of the Group in consequence of the restructuring of the Notes and Loan, we will pave a stronger foundation for our future growth.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources

Capital Structure and Liquidity

The outstanding face value of the Notes is US\$192 million outstanding at the statement of financial position date (equivalent to approximately HK\$1,500 million) whilst the carrying value of the Notes, in aggregate of the liability and financial derivative components, is HK\$739 million (31 December 2008: HK\$399 million). The Notes entitle the Noteholders the right to exercise put options at three stages, i.e. the first option for redeeming not exceeding 30% of the principal value of the Notes plus accrued interest on 4 May 2010, the second option for redeeming not exceeding 20% of the value plus interest on 4 November 2010 and the third option for redeeming all remaining outstanding principal plus interests on 4 May 2011. As a reflection of the rebound of share prices of the Company in the recent months, the financial derivative liabilities were revalued in aggregate at HK\$357 million and the Notes amortised at carrying cost of HK\$382 million at the statement of financial position date. Of the loan liability component of the Notes, carrying value of HK\$119 million is presented as current liability to reflect the amount of the Notes for which the Noteholders will exercise the first put option. Apart from the Notes, the Group is indebted to commercial banks for mortgage loans, the Loan, advance from a minority shareholder of a subsidiary, deferred tax liabilities, advanced payments received from pre-sale and trade payable, totaling HK\$2,684 million (31 December 2008: HK\$2,315 million). The increase in liabilities is due to the rise in fair value of the financial derivative and additional bank borrowings from local banks for working capital of the Group and construction costs of the Guiyang Project during the period.

The management has been recently in discussions with the Noteholders about debt restructuring plans which will involve realisation of ready-to-sale assets, consisting of the Skyfame Tower and The Westin Guangzhou and redeem the Notes with the sale proceeds under conditions which are beneficial to the Group. Though no concrete term has been reached with Noteholders, the management is uncertain about the amount of redemption of the Notes finally involved. Had there been a full redemption at the outstanding principal value of the Notes on the statement of financial position date, the financial derivatives together with the liability component will be stated as the principal value of HK\$1,500 million (US\$192 million) and thus the Group's total liabilities will be accordingly restated at HK\$4,184 million (31 December 2008: HK\$3,814 million).

The gearing ratios, based on the net debt (represented by bank and other borrowings, the Loan, the Notes and financial derivative liabilities, loan from minority shareholder and other payable net of cash and cash equivalents) to the equity attributable to equity holders plus net debt at the statement of financial position dates of 30 June 2009 and 31 December 2008, were 53% and 44% respectively. The rise in gearing ratio is explained by the upward revaluation in the fair value of the financial derivative liabilities. Assuming a restatement of the note payable to its full principal value, the gearing ratio at the statement of financial position date will become 70% (31 December 2008: 69%). The gearing position will vary according to the outcome of the restructuring of the Notes. In the meantime, the management is working progressively on feasible plans to realise assets to fund for the redemption of the Notes and repayment of the Loan that will help in reducing the gearing level.

Cash balance increased to HK\$316 million as new bank loan facilities were drawn down but unutilised for working capital and construction payables near the interim period end. The current ratio was 2.9 (31 December 2008: 3.1). Current assets and current liabilities of the Group were HK\$2,434 million and HK\$841 million respectively on 30 June 2009. The current liabilities increased mainly due to the loan liability of the Notes of HK\$119 million arising from the possible exercise of the first put option of the Noteholders with effect from 4 May 2010. The prospect of the liquidity position of the Group is largely dependent on the outcome of the negotiations with the Noteholders and the lenders of the Loan about the note restructure and repayment of the Loan which will affect the courses of actions that the creditors will take. In the adverse situation if legal actions are taken by the Noteholders for the Automatic Redemption, the Notes to the extent of approximately HK\$586 million in principal and approximately HK\$182 million in interests accrued up to the date of this report will become due immediately which will shown as a current liability of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources *(Continued)*

Borrowings and Pledge of Assets

Other than the deposit restricted for construction costs of works-in-progress, cash in accounts totaling HK\$17 million (31 December 2008: HK\$68 million) was restricted for the payment of interests to Noteholders and lenders of the Loan. Apart from this escrowed money, 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 Noteholders and the lenders of the Loan. To secure for banking facilities in the total of RMB1,261 million granted to operating subsidiaries for working capital and construction costs by several commercial banks in the mainland China, mortgages of property interests in The Westin Guangzhou, Skyfame Tower, Tianyu Garden Phase 2 and works in progress and land of the Guiyang Project were charged in favour of the banks. On 30 June 2009, other than the Notes, secured bank and other borrowings (including the Loan) in an aggregate amount of HK\$1,688 million (31 December 2008: HK\$1,323 million) were outstanding of which HK\$281 million (31 December 2008: HK\$280 million) are due within one year.

Foreign Currency Management

The Group is principally engaged in property development activities which are all conducted in the PRC and denominated in Renminbi ("RMB"), the functional currency of the Company's principal subsidiaries. At the same time, certain financing activities of the Group are denominated in other currencies, such as the Notes are in US dollars and the Loan in HK dollars.

Due to the slight depreciation of RMB against HK and US dollars during the period, a foreign exchange loss of HK\$0.4 million arises on consolidation of the assets and liabilities of the PRC subsidiaries. The exchange reserve of HK\$376 million as at 30 June 2009 adds to the equity attributable to shareholders of the Company. Since the US and HK dollars are pegged whilst RMB moves within narrow extents with the US and HK dollars, the Group foresees no significant foreign currency exposure in the foreseeable future but possible appreciation in the exchange rates of RMB against HK dollars, such fluctuations will not have unfavourable effect on the financial position of the Group. For these reasons, the Group does not hedge against its foreign currency risk. However, any permanent or significant changes in the exchange rates in RMB for HK and US dollars and in the peg system of US dollars with HK dollars may have possible impact on the Group's results and financial position.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2009.

Employees

To keep pace with the growth of the Group after the acquisitions of projects, the Group recruits suitable staff in capable caliber. As at 30 June 2009, other than the Executive Directors, the Group employed 629 staff of which 498 were for hotel operation and 131 for property development and central management. During the period, total staff costs were HK\$36 million, which is maintained at the level of the preceding period. Of the total staff costs, HK\$3 million was 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 of Directors (the "Board") of Skyfame Realty (Holdings) Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2009, together with comparative figures for the corresponding period of 2008. The unaudited consolidated interim results have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited and restated)
Revenue	3	142,077	148,958
Cost of sales and services		(54,906)	(62,297)
Gross profit		87,171	86,661
Other income		691	708
Sales and marketing expenses		(15,682)	(10,124)
Administrative expenses		(85,659)	(89,244)
Loss from operations		(13,479)	(11,999)
Fair value changes in financial derivative liabilities in relation to convertible notes		(263,951)	514,691
Finance costs	4	(120,950)	(81,709)
Finance income		316	2,189
(Loss) profit before income tax	5	(398,064)	423,172
Income tax credit	6	1,788	2,581
(LOSS) PROFIT FOR THE PERIOD		(396,276)	425,753
Other comprehensive (expense) income, net of income tax:			
Exchange differences arising on consolidation of overseas entities		(365)	193,146
TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE PERIOD		(396,641)	618,899
(Loss) profit for the period attributable to:			
– Equity holders of the Company		(391,905)	426,094
– Minority interests		(4,371)	(341)
		(396,276)	425,753
Total comprehensive (expense) income for the period attributable to:			
– Equity holders of the Company		(392,268)	619,014
– Minority interests		(4,373)	(115)
		(396,641)	618,899
Dividends	7	Nil	Nil
(Loss) earnings per share	8		
– Basic		(HK26.52 cents)	HK28.85 cents
– Diluted		N/A	(HK3.14 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Notes	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	961,291	1,046,987
Prepaid lease payments – non-current portion	9	692,554	736,550
Investment properties	9	401,497	401,543
Properties held for development		1,014,446	962,867
Goodwill		68,308	68,316
		3,138,096	3,216,263
Current assets			
Properties held for sale		620,364	573,808
Prepaid lease payments – current portion	9	524,922	494,718
Properties under development		183,042	86,268
Inventories		13,519	19,542
Trade and other receivables	10	43,125	33,900
Restricted and pledged deposits	11	25,139	67,737
Cash and cash equivalents		290,584	53,720
		1,700,695	1,329,693
Assets classified as held for sale	12	733,016	713,399
		2,433,711	2,043,092
Current liabilities			
Trade and other payables	13	288,991	219,761
Bank and other borrowings – current portion	14	280,595	280,228
Convertible notes – current portion	15	119,230	–
Deferred income		3,077	3,779
Income tax payable		40,439	48,080
		732,332	551,848
Liabilities associated with assets classified as held for sale	12	108,217	108,884
		840,549	660,732
Net current assets		1,593,162	1,382,360
Total assets less current liabilities		4,731,258	4,598,623
Non-current liabilities			
Other payable	13	6,305	63,573
Bank and other borrowings – non-current portion	14	1,407,311	1,042,480
Convertible notes – non-current portion	15	262,306	306,337
Financial derivative liabilities	15	357,113	93,162
Loan from minority shareholder of a subsidiary	16	277,339	273,968
Deferred tax liabilities		271,856	273,674
		2,582,230	2,053,194
Net assets		2,149,028	2,545,429
Capital and reserves			
Share capital	17	14,777	14,777
Reserves		2,113,890	2,505,918
Equity attributable to equity holders of the Company		2,128,667	2,520,695
Minority interests		20,361	24,734
Total equity		2,149,028	2,545,429

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to equity holders of the Company												
	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus reserve HK\$'000	Share-based payment reserve HK\$'000	Property revaluation reserve HK\$'000	Merger reserve HK\$'000	Statutory reserves HK\$'000	Other reserves HK\$'000	Foreign exchange reserve HK\$'000	Retained profits HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total HK\$'000
Six months ended 30 June 2009 <i>(Unaudited)</i>													
At 1 January 2009 <i>(Audited)</i>	14,777	1,224,954	15,497	12,713	31,479	(301,662)	6,108	6,158	376,128	1,134,543	2,520,695	24,734	2,545,429
Total comprehensive expense for the period	-	-	-	-	-	-	-	-	(363)	(391,905)	(392,268)	(4,373)	(396,641)
Transfer among reserves	-	-	-	-	-	-	-	1,750	-	(1,750)	-	-	-
Recognition of equity-settled share-based payment expenses	-	-	-	240	-	-	-	-	-	-	240	-	240
	-	-	-	240	-	-	-	1,750	-	(1,750)	240	-	240
At 30 June 2009 <i>(Unaudited)</i>	14,777	1,224,954	15,497	12,953	31,479	(301,662)	6,108	7,908	375,765	740,888	2,128,667	20,361	2,149,028
Six months ended 30 June 2008 <i>(Unaudited and restated)</i>													
At 1 January 2008 <i>(Audited)</i>	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
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	-	192,920	426,094	619,014	(115)	618,899
Contribution from minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	4,881	4,881
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
Expenses incurred on issue of shares	-	(9)	-	-	-	-	-	-	-	-	(9)	-	(9)
Transfer among reserves	-	-	-	-	-	-	-	1,582	-	(1,582)	-	-	-
Reallocation of lapsed options from the share-based payment reserve to retained profits	-	-	-	(527)	-	-	-	-	-	527	-	-	-
Recognition of equity-settled share-based payment expenses	-	-	-	925	-	-	-	-	-	-	925	-	925
	118	13,964	-	325	-	-	-	1,582	-	(1,055)	14,934	4,881	19,815
At 30 June 2008 <i>(Unaudited)</i>	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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited and restated)
Operating activities		
Cash generated from operations	103,864	203,658
Income tax paid	(9,609)	(1,720)
Other borrowing costs paid	(14,727)	(6,336)
Interest paid	(92,753)	(83,220)
Net cash (used in) from operating activities	(13,225)	112,382
Investing activities		
Additions to properties held for/under development	(79,233)	(46,529)
Additions to prepaid lease payments	–	(627,634)
Purchases of property, plant and equipment	(413)	(44,565)
Payment of construction costs of completed properties in prior year	(18,149)	(28,740)
Other investing activities	430	353
Net cash used in investing activities	(97,365)	(747,115)
Financing activities		
Decrease in restricted and pledged deposits	42,598	260,946
Proceeds from bank and other borrowings	487,293	108,480
Repayment of bank and other borrowings	(185,429)	(21,326)
Advance from minority shareholder of a subsidiary	3,404	275,128
Capital contributions from minority shareholder of a subsidiary	–	4,881
Other financing activities	–	338
Net cash from financing activities	347,866	628,447
Net increase (decrease) in cash and cash equivalents	237,276	(6,286)
Effect of foreign exchange rate changes	(412)	12,755
Cash and cash equivalents at beginning of period	53,720	63,338
Cash and cash equivalents at end of period		
– Cash and bank balances	290,584	69,807

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

1. Basis of Preparation

These unaudited condensed consolidated financial statements for the six months ended 30 June 2009 (the "Interim Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Interim Financial Statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008.

The accounting policies used in the Interim Financial Statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

Notwithstanding that the Group is not in compliance with the trust deed (the "Trust Deed") entered into between the convertible noteholders and the Company on ground that a subsidiary of the Company cannot obtain the land use right certificate and other permits in respect of the Zhoutouzui Project by 31 March 2009, as disclosed in *note 15*, and the non-payment of a term loan of HK\$220 million which was due on 29 January 2009, as disclosed in *note 14(b)*, the Interim Financial Statements are prepared using the going concern basis, a fundamental accounting concept adopted in the presentation of the Interim Financial Statements. The Directors considered carefully that the business of the Group is a going concern after having considered the assumptions and qualifications that have material effects on the foreseeable period covering the next twelve months since the statement of financial position date. Key assumptions are as follows:

- (a) The general economic performance in the PRC and the specific industrial parameters affecting the hotel and real estate sectors are becoming stable;
- (b) The contractual terms offered from suppliers and creditors are not affected by the above-mentioned non-compliances;
- (c) No acceleration of the bank loan amortisation in the light of the potential claims nor there will be any claims for consequential losses or damages;
- (d) Assets can be realised to provide sufficient funding to meet with the claims from lenders of the Loan and an early Automatic Redemption of the convertible notes of US\$75 million (approximately HK\$586 million) in principal and accrued interests, should no restructuring plan be reached with the Noteholders;
- (e) New banking facilities have been and will be available to the Group from financial institutions to finance work in progress of the Zhoutouzui and Guiyang Projects in accordance with respective construction timetables; and

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

1. Basis of Preparation (Continued)

- (f) The Directors believe that the holders of the Notes and the Company can reach an agreement to restructuring the existing terms of the Notes which take the effect to relax certain conditions of the Notes such as by extending their rights of the put options which are exercisable from 4 May 2010 onwards and entitling the Noteholders a right to redeem in full the principal value of the Notes at the date of issue plus accrued interests by 4 May 2011.

2. Adoption of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009 and are relevant to the Group:

- As a result of the adoption of HKAS 1 (Revised) “Presentation of Financial Statements”, changes in equity arising from certain transactions that do not include transactions with owners in their capacity as owner are presented separately from all other income and expenses and are presented in the statement of comprehensive income. HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.
- HKFRS 8 “Operating Segments” replaces HKAS 14 “Segment Reporting”. HKFRS 8 requires segment disclosure to be based on the measures reported to the Group’s chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group’s chief operating decision maker.

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

3. Revenue and Segment Reporting

On first time adoption of HKFRS 8 “Operating segments” and in a manner consistent with the way in which information is reported internally for the purposes of resource allocation and performance assessment, the Group is currently organised into three operating divisions – property development, property investment and hotel operation. These divisions are the basis on which the Group reports its primary segment reporting.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

3. Revenue and Segment Reporting (Continued)

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

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Segment Total HK\$'000	Corporate HK\$'000	Total HK\$'000
<u>Results for the six months ended 30 June 2009 (Unaudited)</u>						
Rental income	21,798	8,041	–	29,839	–	29,839
Hotel operation	–	–	112,238	112,238	–	112,238
Segment revenue	21,798	8,041	112,238	142,077	–	142,077
Operating profit (loss) before depreciation and amortisation (Adjusted EBITDA)	4,461	4,971	36,261	45,693	(11,447)	34,246
Depreciation and amortisation	(5,598)	(5)	(39,130)	(44,733)	(2,992)	(47,725)
Segment results	(1,137)	4,966	(2,869)	960		
Corporate operating expenses					(14,439)	
Loss from operations						(13,479)
Fair value changes in financial derivative liabilities in relation to convertible notes						(263,951)
Finance costs						(120,950)
Finance income						316
Loss before income tax						(398,064)
<u>Assets and liabilities as at 30 June 2009 (Unaudited)</u>						
Reportable segment assets						
Assets classified as held for sale	733,016	–	–	733,016	–	733,016
Other segment assets	2,905,627	403,701	1,197,588	4,506,916	331,875	4,838,791
	3,638,643	403,701	1,197,588	5,239,932	331,875	5,571,807
Reportable segment liabilities						
Liabilities associated with assets classified as held for sale	108,217	–	–	108,217	–	108,217
Other segment liabilities	556,806	18,499	55,098	630,403	2,684,159	3,314,562
	665,023	18,499	55,098	738,620	2,684,159	3,422,779
<u>Other segment information for the six months ended 30 June 2009 (Unaudited)</u>						
Capital expenditure	79,394	–	242	79,636	10	79,646

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

3. Revenue and Segment Reporting (Continued)

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Segment Total HK\$'000	Corporate HK\$'000	Total HK\$'000
Results for the six months ended 30 June 2008 (Unaudited and restated)						
Rental income	12,245	11,429	–	23,674	–	23,674
Hotel operation	–	–	125,284	125,284	–	125,284
Segment revenue	12,245	11,429	125,284	148,958	–	148,958
Operating profit (loss) before depreciation and amortisation (Adjusted EBITDA)	(603)	6,796	39,648	45,841	(10,570)	35,271
Depreciation and amortisation	(6,773)	(5)	(37,861)	(44,639)	(2,631)	(47,270)
Segment results	(7,376)	6,791	1,787	1,202		
Corporate operating expenses					(13,201)	
Loss from operations						(11,999)
Fair value changes in financial derivative liabilities in relation to convertible notes						514,691
Finance costs						(81,709)
Finance income						2,189
Profit before income tax						423,172
Assets and liabilities as at 31 December 2008 (Audited and restated)						
Reportable segment assets						
Assets classified as held for sale	713,399	–	–	713,399	–	713,399
Other segment assets	2,671,643	403,731	1,242,211	4,317,585	228,371	4,545,956
	3,385,042	403,731	1,242,211	5,030,984	228,371	5,259,355
Reportable segment liabilities						
Liabilities associated with assets classified as held for sale	108,884	–	–	108,884	–	108,884
Other segment liabilities	485,535	21,995	69,893	577,423	2,027,619	2,605,042
	594,419	21,995	69,893	686,307	2,027,619	2,713,926
Other segment information for the six months ended 30 June 2008 (Unaudited)						
Capital expenditure	718,352	–	40,278	758,630	12,624	771,254

All of the segment revenue reported above is from external customers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

4. Finance Costs

	Six months ended 30 June	
	2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Interest on convertible notes wholly repayable within five years	105,196	71,027
Interest on bank and other borrowings		
– wholly repayable within five years	29,587	15,445
– wholly repayable after five years	36,092	37,778
Interest on short-term loan from a director	97	–
	170,972	124,250
<i>Less: Amount capitalised as properties held for/under development at the rate of approximately 31% (six months ended 30 June 2008: 35%)</i>		
Interest on convertible notes wholly repayable within five years	(44,182)	(29,831)
Interest on bank and other borrowings wholly repayable within five years	(9,357)	(14,265)
	(53,539)	(44,096)
	117,433	80,154
Other borrowing costs	14,727	6,335
<i>Less: Amount capitalised as properties held for/under development</i>	(11,210)	(4,780)
	3,517	1,555
Finance costs charged to consolidated statement of comprehensive income	120,950	81,709

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

5. (Loss) Profit Before Income Tax

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Cost of materials sold	10,795	12,549
Staff costs (including Directors' emoluments) comprise:		
– Basic salaries and other benefits	33,152	31,357
– Bonuses	1,411	2,840
– Equity-settled share-based payment expenses	241	925
– Contributions to defined contribution pension plans	1,256	1,214
Total staff costs (including Directors' emoluments)	36,060	36,336
<i>Less: Amount capitalised as properties held for/under development</i>	(3,305)	(2,311)
	32,755	34,025
Auditors' remuneration – current year	672	780
Depreciation of property, plant and equipment	38,575	36,948
<i>Less: Amount capitalised as properties held for/under development</i>	(12)	–
Total depreciation charged to consolidated statement of comprehensive income	38,563	36,948
Amortisation of prepaid lease payments	13,658	13,971
<i>Less: Amount capitalised as properties held for/under development</i>	(4,496)	(3,649)
Total amortisation charged to consolidated statement of comprehensive income	9,162	10,322
Provision of impairment losses on rental receivables	396	–

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

6. Income Tax Credit

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax		
Overseas corporate tax		
– over provision in respect of prior years	–	541
Deferred tax		
– current year	1,788	2,040
Total income tax credit	1,788	2,581

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2009 (six months ended 30 June 2008: HK\$Nil) as the Group has no estimated assessable profits in respect of operation in Hong Kong. Hong Kong profits tax is calculated at 16.5% (six months ended 30 June 2008: 16.5%) on the estimated assessable profits for the six months ended 30 June 2009.

Enterprise income tax arising from other regions of The People's Republic of China is calculated at 25% (six months ended 30 June 2008: 25%) on 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.

7. Dividends

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2009 (six months ended 30 June 2008: HK\$Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

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

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

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
(Loss) profit for the purposes of basic (loss) earnings per share	(391,905)	426,094
<i>Effect of dilutive potential ordinary shares:</i>		
Fair value changes in financial derivative liabilities in relation to convertible notes		(514,691)
Finance costs on convertible notes (excluding capitalised interest)		41,196
Loss for the purposes of diluted loss per share	N/A	(47,401)
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	1,477,687	1,476,780
<i>Effect of dilutive potential ordinary shares:</i>		
– Bonus warrants		33,505
– Share options		524
Weighted average number of ordinary shares for the purposes of diluted loss per share	N/A	1,510,809

For the six months ended 30 June 2009, no diluted loss per share is presented as the effect was anti-dilutive.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

9. 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:

	Property, plant and equipment HK\$'000	Prepaid lease payments HK\$'000	Investment properties HK\$'000
Net book value at 1 January 2009 <i>(Audited)</i>	1,046,987	1,231,268	401,543
Additions	413	–	–
Disposals	(88)	–	–
Reclassified from office building and leasehold improvement to properties held for sale	(47,341)	–	–
Depreciation	(38,575)	–	–
Amortisation	–	(13,658)	–
Exchange differences	(105)	(134)	(46)
Net book value at 30 June 2009 <i>(Unaudited)</i>	<u>961,291</u>	<u>1,217,476</u>	<u>401,497</u>
Representing:			
Non-current assets	961,291	692,554	401,497
Current assets	–	524,922	–
	<u>961,291</u>	<u>1,217,476</u>	<u>401,497</u>

10. Trade and Other Receivables

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

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Current or less than 1 month	6,371	4,191
1 to 3 months	807	1,000
More than 3 months but less than 12 months	234	122
More than 12 months	533	575
Total trade receivables, net of impairment	7,945	5,888
Deposits, prepayments and other receivables	35,180	28,012
	<u>43,125</u>	<u>33,900</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

10. Trade and Other Receivables *(Continued)*

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

11. Restricted and Pledged Deposits

As at 30 June 2009, 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 two financial institutions (as disclosed in *note 14(b)*), bank deposits totaling approximately HK\$17 million (31 December 2008: HK\$68 million) have been charged in favour of the security trustees acting for the Noteholders and two financial institutions.

Other restricted bank deposits approximately HK\$8 million (31 December 2008: HK\$Nil) represent guaranteed deposits from pre-sale proceeds of properties. Those guaranteed deposits would be released to pay for construction costs incurred for development projects in accordance with the governmental requirements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

12. Assets and Liabilities of Disposal Group held for sale

The assets and liabilities attributable to the Tianhe Project, which is determined to be disposed in 2008, have been included in the consolidated statement of financial position as assets classified as held for sale and liabilities associated with assets classified as held for sale respectively. The proposed disposal, will not lead to discontinued operation since the scale of property development business of the Group will not be significantly curtailed. The carrying amounts of the major assets and liabilities in this disposal group as at 30 June 2009 and 31 December 2008 are as follows:

	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Assets classified as held for sale		
Properties held for development	732,448	712,343
Other assets	568	1,056
	733,016	713,399
Liabilities associated with assets classified as held for sale		
Deferred tax liabilities	107,775	107,787
Other liabilities	442	1,097
	108,217	108,884
Net assets classified as held for sale	624,799	604,515

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

13. Trade and Other Payables

The following includes an ageing analysis of trade payables at the statement of financial position date:

	Notes	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Current or less than 1 month		51,024	35,678
1 to 3 months		4,016	2,761
More than 3 months but less than 12 months		266	986
More than 12 months		4,403	5,761
Total trade payables		59,709	45,186
Retention money payable for construction costs	(a)	3,675	3,888
Construction costs payable		44,957	62,688
Balance of consideration payable for acquisition of a subsidiary	(b)	–	63,573
Advanced payments received from customers			
– Pre-sale deposits received from buyers		77,449	–
– Receipts in advance, rental and other deposits from customers and/or tenants		19,338	22,140
Accruals and other payables		90,168	85,859
		295,296	283,334
Amounts due within one year included in current liabilities		(288,991)	(219,761)
Amounts due after one year		6,305	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 the balance of consideration payable to the vendor for acquisition of a subsidiary in 2006. By virtue of a supplemental agreement dated 20 October 2008 entered into with the creditor, commencing 1 January 2009, the terms of the amount payable were changed to interest-bearing at a rate of 20% per annum, unsecured and the principal together with accrued interest are repayable on or before 31 December 2010. The amount is reclassified as other borrowings since 1 January 2009.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

14. Bank and Other Borrowings

	Notes	30 June 2009 HK\$'000 (Unaudited)	31 December 2008 HK\$'000 (Audited)
Interest-bearing, secured			
– bank borrowings, denominated in Renminbi	(a)	1,404,333	1,070,441
– other borrowing, denominated in Hong Kong dollars	(b)	220,000	220,000
Interest-bearing, unsecured			
– other borrowing, denominated in Renminbi	(c)	–	32,267
– other borrowing, which transfer from other payable and denominated in Hong Kong dollars	13(b)	63,573	–
		1,687,906	1,322,708
Amount due within one year included in current liabilities		(280,595)	(280,228)
Amounts due after one year		1,407,311	1,042,480

Notes:

(a) As at 30 June 2009, the bank borrowings are secured by mortgages of ownership titles of (i) the properties held for sale, (ii) prepaid lease payments, (iii) hotel building grouped under "property, plant and equipment", (iv) investment properties and (v) properties under development with an aggregate carrying value of approximately HK\$3,384 million (31 December 2008: approximately HK\$2,522 million). The bank loans carried interest at variable market rates ranging from 5.54% to 6.57% per annum.

(b) The Loan advanced from two financial institutions is secured by mortgage of shares in certain subsidiaries, assignment of interest and benefits in the shareholder's loans to subsidiaries, and fixed and floating charges of assets in certain subsidiaries of the Company which are engaged in property development, and is repayable on 29 January 2009. The Loan carries variable accrued interest at the rate of HIBOR plus 15.25% per annum.

The Company's discussions with the lenders of the Loan about the settlement of the Loan continue despite the fact that the lenders have not expressed an intention to a standstill to refrain from taking legal actions against the subsidiaries of the Company. Up to the date of this report, there has been no agreement of final settlement.

(c) The balance carried interest at the rate of 20% per annum and was fully repaid in June 2009.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

15. Convertible Notes and Financial Derivative Liabilities

The convertible notes in the aggregate principal amount of US\$200,000,000 (equivalent to approximately HK\$1,562,380,000) were issued on 4 May 2007, details of which are set out in the circular dated 4 April 2007. The Notes bear a coupon of 4% per annum payable semi-annually in arrear, maturity terms of 6 years and an annual yield-to-maturity of 15%. The Notes are convertible for ordinary shares of the Company at the adjusted price of HK\$1.00 per share under the stipulated reset mechanism on 4 August 2008 (the initial conversion price being HK\$1.35 per share). Unless previously redeemed, converted or repurchased and cancelled, the Company will redeem each note at 201.33% of its principal amount on the maturity date of 3 May 2013.

Each convertible noteholder shall have the right to exercise the put options at three stages, (i) redeeming not exceeding 30% of the principal value of the Notes at the date of issue plus accrued interests on 4 May 2010; (ii) redeeming not exceeding 20% of the principal value of the Notes at the date of issue plus accrued interests on 4 November 2010; and (iii) redeeming all remaining outstanding principal plus accrued interests on 4 May 2011.

The derivative components embedded in the Notes are presented as financial derivative liabilities which are revalued on the statement of financial position date at fair values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

15. Convertible Notes and Financial Derivative Liabilities (Continued)

The movements of loan and financial derivative liabilities components of the Notes are as follows:

	Nominal value HK\$'000	Carrying amount		Total HK\$'000
		Loan liabilities component HK\$'000	Financial derivative liabilities component HK\$'000	
Carrying amount at 1 January 2008 (Audited)	1,515,509	211,946	1,081,572	1,293,518
Accrued interest expense	-	156,571	-	156,571
Interest paid	-	(59,995)	-	(59,995)
Conversion of convertible notes	(15,624)	(2,185)	(11,486)	(13,671)
Fair value changes in financial derivative liabilities in relation to convertible notes	-	-	(976,924)	(976,924)
At 31 December 2008 and at 1 January 2009 (Audited)	1,499,885	306,337	93,162	399,499
Accrued interest expense	-	105,196	-	105,196
Interest paid	-	(29,997)	-	(29,997)
Fair value changes in financial derivative liabilities in relation to convertible notes	-	-	263,951	263,951
Carrying amount at 30 June 2009 (Unaudited)	1,499,885	381,536	357,113	738,649
Representing:				
Current liabilities	468,714	119,230	-	119,230
Non-current liabilities	1,031,171	262,306	357,113	619,419
	1,499,885	381,536	357,113	738,649

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

As at 30 June 2009 and 31 December 2008, the face value of the outstanding Notes are US\$192 million (approximately HK\$1,500 million).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

15. Convertible Notes and Financial Derivative Liabilities (Continued)

As at 30 June 2009, the Group's obligations under Notes to the Noteholders are secured by (i) restricted and pledged deposits of approximately HK\$17 million (31 December 2008: HK\$46 million) (as disclosed in *note 11*), (ii) shares of certain subsidiaries of the Company which hold equity interest in other subsidiaries engaged in property development and (iii) shares of the Company beneficially held by Mr. Yu Pan, details of which have been disclosed in *note 19(b)*.

Under the Trust Deed dated 4 May 2007, a supplemental deed dated 22 January 2008 and a special committee meeting of the Noteholders, the Noteholders have an automatic right to redeem the Notes in principal amount of US\$75 million (approximately HK\$586 million) and accrued interest if the project company of the Zhoutouzui Project cannot obtain the land use right certificate for the project on or before 31 March 2009. The project company cannot meet the deadline and on 29 May 2009, the Special Committee of the Noteholders has given the Company consent to refrain from exercising the Noteholders' right of the Automatic Redemption or on such a later date when a concrete plan for a restructuring of the terms and conditions of the Notes has been agreed between the Company and the Noteholders.

Negotiations in relation to the restructuring of the Notes with the Noteholders are in progress though no resolutions have been reached so far up to the date of this report. The claim for the Automatic Redemption is in standstill. The Directors believe that the restructured terms of the Notes may be reached in the coming months that will relax certain terms and conditions of redemption of the Notes that are in the interest of the Company. In the adverse situation if legal actions are taken by the Noteholders for the Automatic Redemption, the Notes to the extent of approximately HK\$586 million in principal and approximately HK\$182 million in interests accrued up to the date of this report will become due immediately which will shown as a current liability of the Group.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

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
Authorised:						
At 31 December 2008 (Audited)						
and at 30 June 2009 (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>
Issued and fully paid:						
At 1 January 2008 (Audited)	1,465,847	-	1,465,847	14,659	-	14,659
Issue of shares:						
- Conversion of convertible notes	11,573	-	11,573	116	-	116
- Exercise of bonus warrants	7	-	7	-	-	-
- Exercise of share options	<u>260</u>	<u>-</u>	<u>260</u>	<u>2</u>	<u>-</u>	<u>2</u>
At 31 December 2008 (Audited), at 1 January 2009 and 30 June 2009 (Unaudited)	<u>1,477,687</u>	<u>-</u>	<u>1,477,687</u>	<u>14,777</u>	<u>-</u>	<u>14,777</u>

18. Equity-settled Share-based Transactions

During the six months ended 30 June 2009 and 30 June 2008, no share options were granted under a share option scheme adopted on 4 August 2005 (the "2005 Scheme"). No share options previously granted under the 2005 Scheme were exercised and lapsed during the six months ended 30 June 2009. For the six months ended 30 June 2008, 260,000 share options were exercised and 2,140,000 share options were lapsed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

19. Related Party Transactions

(a) Material transactions with related parties

Related party relationship	Type of transaction	Six months ended 30 June	
		2009 HK\$'000 (Unaudited)	2008 HK\$'000 (Unaudited)
Mr. Yu Pan, a director of the Company	Interest on short-term loan from a director paid by the Group	97	–
Companies beneficially owned by Mr. Yu Pan	Entertainment expenses paid by the Group	500	608
Companies controlled by Mr. Yu Pan	(a) Rental income received by the Group from office leasing	3,382	3,163
	(b) Revenue received by the Group from hotel operation	–	830
		—	—

(b) Pledge of Shares by Controlling Shareholder

To secure for the convertible notes with an outstanding principal value of US\$192 million issued by the Company as disclosed in *note 15*, Sharp Bright International Limited (“Sharp Bright”) and Grand Cosmos Holdings Limited (“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; and
- (ii) first fixed charge and first floating charge over the assets of Sharp Bright and Grand Cosmos.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

19. Related Party Transactions (Continued)

(c) Compensation of Key Management Personnel

The remuneration of members of key management, including Directors' emoluments, incurred during the period is as follows:

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Short-term benefits	7,780	7,214
Other long-term benefits	134	90
Equity-settled share-based payment expenses	117	524
	8,031	7,828

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

20. Capital Commitments

	30 June	31 December
	2009	2008
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Capital expenditure contracted for but not provided for in the Interim Financial Statements in respect of property construction and development costs	1,148,506	1,167,158

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2009

21. Contingent Liabilities

As at 30 June 2009, the Group had no material contingent liabilities (31 December 2008: HK\$Nil).

22. Comparative Figures

As a result of the application of HKAS 1 (Revised) "Presentation of Financial Statements" and HKFRS 8 "Operating Segments", and to be consistent with consolidated financial statements for the year ended 31 December 2008, certain comparative figures have been restated to conform to the current period's presentation.

23. Event after the End of the Reporting Period

The proposed transaction as announced on 1 June 2009 by the Company about the sale of 80% equity interest in Yaubond Limited, a subsidiary of Sky Honest Investments Corp. and Nicco Limited holding 100% indirect interest in the Tianhe Project, was put for independent shareholders' resolutions in a special general meeting of shareholders held on 10 July 2009. The proposed resolution was voted down by the shareholders resulting that the transaction cannot be proceeded and hence was terminated on 22 July 2009 by the parties to the agreement. Despite the proposed transaction not being passed through, the management is still seeking other opportunities to realise the asset or other refinancing method.

Following the termination of the agreement, the lenders have not expressed an intention to a standstill to refrain from taking legal actions against the subsidiaries of the Company nor have taken any legal action against the Group. Nonetheless, the Company continues the discussions with the lenders of the Loan with an intention for a full settlement. No agreement has been reached up to the date of this report.

OTHER INFORMATION

Interim Dividend

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

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

As at 30 June 2009, the interests and short positions of the Directors and chief executives of the Company in the shares of the Company (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 (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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules, to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "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	1,058,112,271 (note 1)	71.61% (note 2)

Notes:

1. These Shares comprised (i) 94,336,000 existing Shares and (ii) 963,776,271 existing Shares 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 were charged in favour of the security trustee by way of a share charge dated 4 May 2007.
2. For the purposes of this section, the shareholding percentage in the Company was calculated on the basis of 1,477,687,450 Shares in issue as at 30 June 2009.

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 2009, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the 2005 Scheme:

Name of Director	Exercise price (HK\$)	Exercise period	Number of underlying Shares	Approximate shareholding percentage <i>(Note)</i>
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 1,477,687,450 Shares in issue as at 30 June 2009.

Save as disclosed above, as at 30 June 2009, 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 to be notified to the Company and the Stock Exchange.

OTHER INFORMATION *(Continued)*

Substantial Shareholders

At 30 June 2009, 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	Approximate percentage <i>(note 10)</i>
Sharp Bright	Interest of controlled corporation	963,776,271 (long) <i>(note 1)</i>	65.22%
Grand Cosmos	Beneficial owner	963,776,271 (long) <i>(note 1)</i>	65.22%
Bank of America Corporation	Interests of controlled corporation	1,354,371,271 (long) <i>(note 2)</i>	91.65%
Lehman Brothers Holdings Inc. (in liquidation)	Interests of controlled corporation and/or person having a security interest in Shares	979,287,355 (long) <i>(note 3)</i>	66.27%
	Interests of controlled corporation	2,700,000 (short)	0.18%
Walkers SPV Limited	Interests of controlled corporation	335,911,700 (long) <i>(note 4)</i>	22.73%
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	1,347,160,656 (long) <i>(note 5)</i>	91.17%

OTHER INFORMATION *(Continued)*

Substantial Shareholders *(Continued)*

Interests in the Shares or underlying Shares (Continued)

Name of shareholder	Capacity	Number of Shares and underlying Shares	Approximate percentage <i>(note 10)</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	1,347,160,656 (long) <i>(note 5)</i>	91.17%
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	1,347,160,656 (long) <i>(note 5)</i>	91.17%
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	1,347,160,656 (long) <i>(note 5)</i>	91.17%
DKR Oasis Management Co. LP	Investment manager 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	1,347,160,656 (long) <i>(note 5)</i>	91.17%
DKR SoundShore Oasis Holding Fund Ltd.	Beneficial owner 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	276,162,679 (long) <i>(note 6)</i>	18.69%
Chestnut Fund Ltd.	Beneficial owner 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	1,070,997,977 (long) <i>(note 7)</i>	72.48%
Deutsche Bank Aktiengesellschaft	Person having a security interest in Shares	82,806,140 (long)	5.60%

OTHER INFORMATION *(Continued)*

Substantial Shareholders *(Continued)*

Interests in the Shares or underlying Shares *(Continued)*

Name of shareholder	Capacity	Number of Shares and underlying Shares	Approximate percentage <i>(note 10)</i>
PMA Capital Management Limited	Investment manager and/or person having a security interest in Shares	1,073,142,871 (long) <i>(note 8)</i>	72.62%
PMA Prospect Fund	Beneficial owner and/or person having a security interest in Shares	1,046,582,411 (long) <i>(note 8)</i>	70.83%
PMA Focus Fund	Beneficial owner and/or person having a security interest in Shares	990,336,731 (long) <i>(note 8)</i>	67.02%
Dalton Investments LLC	Investment manager	979,400,071 (long) <i>(note 9)</i>	66.28%

Notes:

- 1 963,776,271 existing Shares were 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 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 in which Sharp Bright was interested by virtue of SFO. The 963,776,271 Shares were charged in favour of the security trustee by way of share charge dated 4 May 2007.
2. These Shares comprised (i) 963,776,271 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 (ii) 390,595,000 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 Merrill Lynch & Co., Inc., Merrill Lynch International Incorporated, ML GCRE CP, L.L.C., ML Asian R.E. GP, L.L.C., Merrill Lynch Asian Real Estate Fund Manager Pte Ltd. and Merrill Lynch Asian Real Estate Opportunity Fund Pte. Ltd. All of these entities were controlled by Bank of America Corporation.
3. These Shares comprised (i) 7,699,184 existing Shares; (ii) 963,776,271 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) 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 (in liquidation), LBCCA Holdings I LLC., LBCCA Holdings II LLC. All these entities were controlled by Lehman Brothers Holdings Inc.
4. These Shares comprised 335,911,700 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 by Kingfisher Capital CLO Limited which was controlled by Walkers SPV Limited.

OTHER INFORMATION *(Continued)*

Substantial Shareholders *(Continued)*

Interests in the Shares or underlying Shares (Continued)

Notes: (Continued)

5. These Shares comprised (i) 8,413,185 existing Shares; (ii) 963,776,271 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) 374,971,200 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.
6. These Shares comprised (i) 8,413,185 existing Shares; (ii) 192,755,254 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) 74,994,240 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.
7. These Shares comprised (i) 771,021,017 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 (ii) 299,976,960 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. Chestnut Fund Ltd. is an affiliate of DKR SoundShore Oasis Holding Fund Ltd as described in the Trust Deed.
8. These Shares comprised (i) 963,776,271 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) 109,366,600 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 by PMA Prospect Fund (as to 82,806,140 underlying Shares) and PMA Focus Fund (as to 26,560,460 underlying Shares). All of these funds were controlled by PMA Capital Management Limited.
9. These Shares comprised (i) 963,776,271 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 (ii) 15,623,800 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.
10. For the purpose of this section, the shareholdings percentage in the Company was calculated on the basis of 1,477,687,450 Shares in issue as at 30 June 2009.

Save as disclosed above, as at 30 June 2009, 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 Scheme

The Company has adopted 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 2009:

Date of grant	Exercise period	Vesting period	Exercise price	Number of options outstanding at 31 December 2008 and 30 June 2009
12 September 2006	13 March 2007 to 31 July 2015	Six months from the date of grant	HK\$1.31	15,340,000
12 September 2006	13 March 2008 to 31 July 2015	One and a half years from the date of grant	HK\$1.31	15,340,000
12 September 2006	13 March 2009 to 31 July 2015	Two and a half years from the date of grant	HK\$1.31	15,370,000
				46,050,000
<i>Analysis of category:</i>				
Directors				4,800,000
Other employees				17,100,000
Non-employees				24,150,000
				46,050,000

During the period, no share options were granted, exercised or lapsed under the 2005 Scheme. There were 46,050,000 share options outstanding as at 30 June 2009.

OTHER INFORMATION *(Continued)*

Corporate Governance

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

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

Model Code for Securities Transaction by Directors

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

Re-designation of Non-executive Director and Changes in Information of Independent Non-executive Directors

On 15 May 2009, Mr. Jerry Wu was re-designated from Non-executive Director to Independent Non-executive Director and appointed as a member of Audit Committee and Remuneration Committee.

On 20 April 2009, Ms. Chung Lai Fong, an Independent Non-executive Director of the Company, has been appointed as an independent non-executive director of Far City Mining Limited, a company listed on Canadian National Stock Exchange on 31 July 2009.

Effective from 15 May 2009, remuneration to each of Independent Non-executive Directors is reduced from HK\$200,000 to HK\$180,000 per annum as part of the cost control program undertaken to tackle the financial stress faced by the Group.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

OTHER INFORMATION *(Continued)*

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 2009.

Audit Committee

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

By order of the Board
Yu Pan
Chairman

Hong Kong, 11 September 2009