



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 (*resigned on 1 August 2010*)

Company Secretary

Cheung Lin Shun

Audit Committee

Choy Shu Kwan (*Chairman*)
Cheng Wing Keung, Raymond
Chung Lai Fong
Jerry Wu (*resigned on 1 August 2010*)

Remuneration Committee

Chung Lai Fong (*Chairman*)
Choy Shu Kwan
Cheng Wing Keung, Raymond
Yu Pan
Jerry Wu (*resigned on 1 August 2010*)

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 HNA Tower
8 Linhe Zhong Road, Tianhe District
Guangzhou, Guangdong Province, the PRC
Telephone: (86-20) 2208 2888
Facsimile: (86-20) 2208 2889

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

Industrial and Commercial Bank of China

Auditors

BDO Limited
Certified Public Accountants

Legal Advisers

Hong Kong Laws:

Vincent T.K. Cheung, Yap & Co.
Leung & Associates
Angela Ho & Associates

Bermuda Laws:

Conyers Dill & Pearman

PRC Laws:

廣東經綸律師事務所

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

Business Review

During the six months ended 30 June 2010, the Group recorded a total turnover of HK\$9 million, representing shrinkage of 94% when compared with the correspondence period in last year due to the disposal of the Group's major revenue generating asset, The Westin Guangzhou and Skyfame Tower, in December 2009. The Group has however maintained a stable stream of income from the leasing of the Tianyu Garden Phase II for the period.

The operating results, inclusive of share of loss of an associate of HK\$9 million, present a loss of HK\$21 million before interest, income tax, depreciation and amortisation of HK\$0.3 million (2009: earning of HK\$34 million before interest, income tax, depreciation and amortisation of HK\$48 million). Other than holding an investment property for stable income, the Group continued its property development business, though no revenue has been booked in the period as the Guiyang Project will only contribute to the income statement in the second half of the year when the completed properties are delivered to buyers for occupation. Hence, routine expenses incurred have put burden to the income statement for the current period and coupled with administrative expenses incurred in the debt rescheduling and provisional liquidation, resulting in a loss from operation.

In addition, interests paid to banks and financial institutions on borrowings, so far not capitalised as development costs, totaling HK\$8 million (2009: HK\$121 million), brought further loss for the period. The current period charges are solely interests paid to banks for bank financing for the Group's working capital needs and development of the Guiyang Project whilst that for the last period includes interests of HK\$79 million charged for the convertible notes (the "Notes") and a term loan of HK\$220 million (the "Sky Honest Loan") which were waived when settlements were reached with the noteholders (the "Noteholders") and Sky Honest Loan lenders in June 2010.

Upon the issue of an acceleration notice from the trustee of the Notes due to a default under the trust deed dated 4 May 2007 ("Trust Deed"), the Notes have been presented on the financial statement of the Group as at 31 December 2009 as a liability at the outstanding principal value of US\$192 million plus accrued interests, whilst in the last corresponding period in 2009, the financial derivative embedded in the convertible notes is presented at fair value when HK\$264 million was booked to recognise the increase in fair value of the derivative. Taking the view of the moratorium with the Noteholders and the Sky Honest Loan lenders in June 2010, the Notes and the Sky Honest Loan are recorded in the accounts at the compromised amounts. Accordingly, the indebtedness due for the Notes and the Sky Honest Loan are written down and the accrued interests reversed, leading to a gain of HK\$936 million recognised in the current period.

Property prices have become stable since late 2009, and based on valuation of the directors of the Company (the "Directors"), no adjustment is made to revalue the Group's investment property or write-down of goodwill in the acquired investments.

Overall, the current period records a profit attributable to shareholders of approximately HK\$910 million (2008: loss of HK\$392 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review and Outlook *(Continued)*

Investment Properties and Properties for Sale

Subsequent to the disposal of the Skyfame Tower in late 2009, the Group remains to hold an investment property of a 20,000 sq.m. commercial podium at Tianyu Garden Phase 2 in Tianhe District, Guangzhou. The property is now 64% occupied, tenanted with renowned corporations and the US consulate.

Properties Development

Guiyang Project

The development, which the Group holds a 55% stake, consists of high-end residential apartments of a total GFA of approximately 580,000 sq.m. and community facilities. The first phase of the development for a total GFA of 90,000 sq.m. were launched for pre-sale in the second quarter of 2009 and 90% of which have been contracted and sale proceeds of HK\$370 million have been received from buyers up to 30 June 2010. The proceeds will be recognised as income in the second half of the year as the completed residential units are delivered to buyers for occupation starting from early July this year. The second phase of the development of a total GFA area of approximately 209,000 sq.m. are under construction which are ready to be marketed later this year.

Zhoutouzui Project

The management is performing and will imminently complete all procedures in obtaining the necessary permits and approvals from the government to facilitate the immediate commencement of construction work on the site, which is realistically expected to take place later this year. The property is a plot of land with a site area of approximately 86,557 sq.m. and a planned GFA of 316,141 sq.m. consisting of mainly residential, office and service apartments, and ancillary facilities of commercial and carparks. The site, opposite to the renowned White Swan Hotel, offers a GFA of 146,077 sq.m. for the construction of riverfront residential units with full view of the Pearl River.

Tianhe Project

The construction of the new fire station is approaching completion so that the relocation of the fire station erected on the Tianhe site will take place in the coming months of 2010. In the past months, great efforts have been put in the negotiations with the regulatory authorities for extending the construction period of the land which has lapsed. Negotiations are successful and the extension was granted without penalty.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review and Outlook *(Continued)*

Subsequent Events

After series of negotiations with Noteholders and the lenders of Sky Honest Loan, there have been breakthroughs since 7 June 2010, the Company and certain subsidiaries entered into two agreements respectively with, amongst others, the trustee and security trustee acting on behalf of the Noteholders ("Settlement Agreement") and the facility and security agent acting for the Sky Honest Loan lenders ("Restructuring Agreement"). Pursuant to the two agreements, the indebtedness due to the two groups of creditors are reduced to US\$153.6 million for the Notes and HK\$176 million for the Sky Honest Loan if the Group can satisfy the payment obligations on or before 4 October 2010. Settlements beyond then but before 4 January 2011 are subject to surcharges. However, failure to meet with these obligations before 4 January 2011 will render the Settlement Agreement and Restructuring Agreement invalid. In view of the moratorium, the petitioner for the winding up order made an application for the discharge of the winding up order and subsequently on 9 July 2010, the High Court discharged the winding up order of the Company and dismissed the provisional liquidators.

Pursuant to the two agreements entered with the creditors, securities that have been accelerated by receivers appointed by the creditors by reason of defaults under the Trust Deed and the Sky Honest Loan were restored and the receivers appointed by the Noteholders and Sky Honest Loan lenders were discharged on 23 July 2010. Simultaneously, the boards of directors of the subsidiaries of the Company under receivership are restored to their original positions at the time prior to the acceleration of the Notes and operations of the Group has now resumed normal.

On 26 July 2010, a framework agreement for the disposal of the entire equity interest in a subsidiary engaged in the development of the Tianhe Project was entered into with a third party for a gross sale consideration of RMB1,090,000,000 (equivalent to approximately HK\$1,253 million) (the "Disposal"). The Disposal is expected to be completed in October 2010 and the amount of approximately HK\$566 million, being the gross amount of the first installment payment from the purchaser of RMB600 million net of direct expenses and taxes, will be applied sufficiently for the payments of the outstanding balances due to the Noteholders and Sky Honest Loan lenders under the Settlement Agreement and Restructuring Agreement. The total committed sum payable to the Noteholders and Sky Honest Loan lenders, if the Disposal is implemented on schedule and funds are repatriated in Hong Kong in mid-November 2010, is estimated at approximately HK\$493 million, inclusive of surcharges, costs and expenses. Upon full settlement, the Notes of an outstanding principal of US\$192 million will be cancelled and the Sky Honest Loan of HK\$220 million will be fully discharged. The residue installments receivable from the purchaser totaling RMB370 million, after taking into account certain price adjustments for future development and finance costs that are to be borne by the vendor and estimated at RMB120 million, will be retained in the Group for its working capital.

The Directors believe that the anticipated settlements with the Noteholders and Sky Honest Loan lenders and the satisfactory completion of the debt restructuring afterwards will substantially reduce the liabilities and finance costs of the Group and the Disposal can provide the Group with sufficient financial resources to allow the management to use its endeavors in running its development projects on hand.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Business Review and Outlook *(Continued)*

Going Concern

The series of restructuring programs mentioned in the aforesaid paragraphs indicate that the financial position of the Group is being stabilised. Accordingly, the financial statements are prepared using the going concern basis, a fundamental accounting concept adopted in the presentation of the financial statements. The Directors considered that the business of the Group is a going concern after having considered the assumptions and qualifications that may have material effects on the foreseeable period covering the next twelve months since the end of this reporting period (the “balance sheet date”). Key assumptions of a going concern rest on successful implementation of the Disposal, the fulfillment of all the Group’s obligations under the Settlement Agreement and Restructuring Agreement, a stable general economic performance in the PRC and the real estate sector, and additional banking facilities, if required, to finance the construction work in progress and project commencing construction.

Outlook

In light of the executed agreement to dispose of Tianhe Project and the implementation of the transaction as contemplated with creditors, the liabilities of the Group will be reduced and gearing improved. The Group will also be completely relieved from the financial crisis faced in the past over one year that had caused interruptions to the Group’s business activities. With sufficient resources derived from the Disposal, we envisage a promising future in the coming years.

In the last quarter of this year, the emerging European sovereign debt crisis brought downside risks to the recovery of the global economy by the adversely affected confidence in the investment markets, though economy in the mainland China is still sustaining steady growth. To continue the economic trend, the central government maintains loose monetary measures after putting consolidation measures in particular on the real estate sector to curb speculation and bubbles in early of the year. Amid such threats, thanks to the Group’s experience in managing the one-year long financial crisis, the management has proven ability to overcome the difficulties and will concentrate full efforts on its existing development projects whilst at the same time look for expansion opportunities. The directors believe that the Group has strong essence and sufficient financial strength to survive amid the confronting challenges.

Liquidity and Financial Resources

Capital Structure and Liquidity

On the last report date of 31 December 2009, the convertible notes with outstanding principal value of US\$192 million (equivalent to approximately HK\$1,500 million) were presented in the statement of financial position as a liability and the embedded financial derivative component was de-recognised. Following the moratorium reached with Noteholders and Sky Honest Loan lenders, the convertible notes are carried in the books at the compromised value of US\$153.6 million (equivalent to approximately HK\$1,198 million) and the Sky Honest Loan at HK\$176 million, representing a substantial reduction in liabilities of HK\$936 million which is recognised as a gain in the income statement for the period.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources *(Continued)*

Capital Structure and Liquidity *(Continued)*

Apart from the Notes and the Sky Honest Loan, the Group is indebted to commercial banks for a mortgage loan and construction loan, other borrowings and advance from a minority shareholder of a subsidiary, totaling approximately HK\$566 million (31 December 2009: HK\$531 million).

The gearing ratios, based on the net debt (represented by bank and other borrowings, the Sky Honest Loan, the Notes and advance from minority shareholder net of cash and bank balances) to the equity attributable to equity holders plus net debt at the balance sheet dates of 30 June 2010 and 31 December 2009 are 33% and 76% respectively. The substantial drop in indebtedness is explained by the reduction in debts as compromised with the Noteholders and Sky Honest Loan lenders. The Directors believe that the anticipated settlements with the Noteholders and Sky Honest Loan lenders after the second installments have been paid with the net proceeds from the Disposal will substantially further reduce the liabilities and finance costs of the Group.

The current assets amounted to approximately HK\$1,018 million which decreased substantially as a result of 90% of the consideration receivable from the disposal of the Westin Project was received of which US\$100 million was used to pay for the first payment to the Noteholders on 30 June 2010 pursuant to the Settlement Agreement. Then subsequently on 2 July, HK\$116.4 million was used to pay for the first installment plus reimbursable expenses to the Sky Honest Loan lenders in compliance with the Restructuring Agreement. The current ratio was 0.9 to 1 (31 December 2009: 0.6 to 1). The ratio reflects that the Group is still under pressure to settle the short-term liabilities, in particular the convertible notes and Sky Honest Loan, when they are due in the coming months. Taking into account of the settlement to the Sky Honest Loan lenders to the balance sheet date, the cash balance of approximately HK\$149 million was maintained by the Group at the balance sheet date. Despite the foregoing, the Disposal will solve the problem by improving the liquidity position of the Group and enable the settlement of its short term financial commitments.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Liquidity and Financial Resources *(Continued)*

Borrowings and Pledge of Assets

Cash of approximately of HK\$32 million held at the balance sheet date was restricted for construction costs of works-in-progress whilst cash in bank accounts of approximately HK\$17 million (31 December 2009: HK\$22 million) previously placed in deposits and restricted for the payment of interests to Noteholders was transferred out from the deposits for the partial payment of the final installment due to the Noteholders pursuant to the Settlement Agreement. Apart from the escrowed deposits, shares of certain intermediate holding companies of the property developing subsidiaries of the Group were charged in favor of the security agents acting for the Noteholders and the Sky Honest Loan lenders. To secure for banking facilities in the total of RMB221 million granted to operating subsidiaries for working capital and construction costs by a commercial bank in the mainland China, mortgages of property interests in Tianyu Garden Phase 2 and works in progress and land of the Guiyang Project were charged in favour of the banks. On 30 June 2010, other than the Notes and the Sky Honest Loan, secured bank borrowings in an aggregate amount of approximately HK\$246 million (31 December 2009: HK\$247 million) were outstanding of which approximately HK\$8 million (31 December 2009: HK\$8 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 convertible notes are in US dollars and the Sky Honest Loan in HK dollars.

Due to the slight appreciation of RMB against HK and US dollars during the period, a foreign exchange gain of HK\$23 million arises on consolidation of the assets and liabilities of the PRC subsidiaries. An exchange reserve totaling HK\$246 million as at 30 June 2010 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Contingent Liabilities

Since the reaching of moratoriums with the Noteholders and the Sky Honest Loan lenders in June 2010, the Notes and the Sky Honest Loan have been recorded at the settlement amounts as compromised under the Settlement Agreement and Restructuring Agreement. As a result, the amounts of indebtedness due for the Notes and the Sky Honest Loan are written down and the accrued interests reversed in the current period. Up to the date of this report, the Group have carried out due performance in the first installment payments to the Noteholders and Sky Honest Loan lenders in an aggregate amount of approximately HK\$894 million. Subject to the due payment of the remaining final installments totaling approximately HK\$480 million, plus surcharges (if applicable) and reimbursable costs on or before 4 January 2011, the Notes will be cancelled and the Sky Honest Loan will be discharged. In the event that the final installments cannot be settled in due course, the indebtedness, in outstanding principal and interests accrued thereon in respect of the Notes and the Sky Honest Loan will be restated to their original outstanding balances net of payments made by the Group. In such event, the Group will have to bear additional liabilities arising from the restatement of principal sums due to the Noteholders and Sky Honest Loan lenders and interests accrued thereon up to 30 June 2010 in an aggregate of approximately HK\$1,098 million.

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 2010, other than the Executive Directors, the Group, including an associate, employed 134 staff for property development and central management. During the period, total staff costs incurred were HK\$13 million (2009: HK\$38 million). The substantial decrease as compared with the corresponding period in last year was contributed by the disposal of the hotel operation. Of the total staff costs, HK\$4 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 2010, together with comparative figures for the corresponding period of 2009. 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 2010

		Six months ended 30 June	
	<i>Notes</i>	2010	2009
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	8,645	142,077
Cost of sales and services		(1,458)	(54,906)
Gross profit		7,187	87,171
Other income		8,653	691
Sales and marketing expenses		(2,865)	(15,682)
Administrative expenses		(25,540)	(85,659)
Fair value changes in financial derivative liabilities in relation to convertible notes		–	(263,951)
Reduction in debts as compromised with creditors	4	936,156	–
Share of loss of associate, net of tax		(8,537)	–
Finance costs	5	(8,168)	(120,950)
Finance income		1,372	316
Profit (loss) before income tax	6	908,258	(398,064)
Income tax credit	7	–	1,788
PROFIT (LOSS) FOR THE PERIOD		908,258	(396,276)
Other comprehensive income:			
Exchange differences arising on consolidation of foreign operations		23,138	(365)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		931,396	(396,641)
Profit (loss) for the period attributable to:			
– Owners of the Company		910,369	(391,905)
– Minority interests		(2,111)	(4,371)
		908,258	(396,276)
Total comprehensive income for the period attributable to:			
– Owners of the Company		933,303	(392,268)
– Minority interests		(1,907)	(4,373)
		931,396	(396,641)
Earnings (loss) per share	9		
– Basic		HK61.61 cents	(HK26.52 cents)
– Diluted		HK61.61 cents	(HK26.52 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited and Restated)
Non-current assets			
Property, plant and equipment	10	899	1,111
Investment properties	10	422,033	416,951
Properties held for development		1,386,747	1,563,453
Goodwill		15,752	15,562
Interest in an associate		756,164	631,094
		2,581,595	2,628,171
Current assets			
Properties under development		638,849	326,356
Trade and other receivables	11	31,899	31,956
Consideration receivable for disposal of a subsidiary		50,722	1,213,031
Restricted and pledged deposits	12	31,637	38,547
Cash and cash equivalents		265,195	114,719
		1,018,302	1,724,609
Current liabilities			
Trade and other payables	13	490,000	418,071
Bank and other borrowings – current portion	14	268,223	277,627
Convertible notes	15	399,671	2,057,326
Income tax payable		29,414	120,052
		1,187,308	2,873,076
Net current liabilities		(169,006)	(1,148,467)
Total assets less current liabilities		2,412,589	1,479,704
Non-current liabilities			
Bank and other borrowings – non-current portion	14	238,040	239,150
Loan from minority shareholder of a subsidiary	16	235,370	234,690
Deferred tax liabilities		159,324	157,405
		632,734	631,245
Net assets		1,779,855	848,459
Capital and reserves			
Share capital	17	14,777	14,777
Reserves		1,749,177	815,874
Equity attributable to owners of the Company		1,763,954	830,651
Minority interests		15,901	17,808
Total equity		1,779,855	848,459

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

Attributable to owners 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	(Accumulated losses)		Minority interests HK\$'000	Total HK\$'000	
									Foreign exchange reserve HK\$'000	Retained profits HK\$'000			
Six months ended 30 June 2010													
<i>(Unaudited)</i>													
At 1 January 2010 <i>(Audited)</i>	14,777	1,224,954	15,497	12,929	31,479	(301,662)	6,108	-	223,473	(396,904)	830,651	17,808	848,459
Total comprehensive income for the period	-	-	-	-	-	-	-	-	22,934	910,369	933,303	(1,907)	931,396
At 30 June 2010 <i>(Unaudited)</i>	<u>14,777</u>	<u>1,224,954</u>	<u>15,497</u>	<u>12,929</u>	<u>31,479</u>	<u>(301,662)</u>	<u>6,108</u>	<u>-</u>	<u>246,407</u>	<u>513,465</u>	<u>1,763,954</u>	<u>15,901</u>	<u>1,779,855</u>
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 income 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
At 30 June 2009 <i>(Unaudited)</i>	<u>14,777</u>	<u>1,224,954</u>	<u>15,497</u>	<u>12,953</u>	<u>31,479</u>	<u>(301,662)</u>	<u>6,108</u>	<u>7,908</u>	<u>375,765</u>	<u>740,888</u>	<u>2,128,667</u>	<u>20,361</u>	<u>2,149,028</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Operating activities		
Cash generated from operations	77,798	103,864
Income tax paid	(83,863)	(9,609)
Other borrowing costs paid	–	(14,727)
Interest paid	(7,830)	(92,753)
Net cash used in operating activities	(13,895)	(13,225)
Investing activities		
Decrease in consideration receivable for disposal of a subsidiary	1,162,920	–
Capital contributions to an associate	(125,598)	–
Additions to properties held for/under development	(109,122)	(79,233)
Payment of construction costs of completed properties in prior year	–	(18,149)
Purchases of property, plant and equipment	(103)	(413)
Other investing activities	1,372	430
Net cash from (used in) investing activities	929,469	(97,365)
Financing activities		
(Increase) decrease in restricted and pledged deposits	(9,657)	42,598
Additional bank and other borrowings	34,499	487,293
Repayment of bank and other borrowings	(4,003)	(185,429)
Settlement of convertible notes	(777,200)	–
Increase in amount due to director	2,000	–
Decrease in amount due to director	(2,000)	–
(Repayment to) advance from a minority shareholder of a subsidiary	(2,169)	3,404
Net cash (used in) from financing activities	(758,530)	347,866
Net increase in cash and cash equivalents	157,044	237,276
Effect of foreign exchange rate changes	(6,568)	(412)
Cash and cash equivalents at beginning of period	114,719	53,720
Cash and cash equivalents at end of period		
– Cash and bank balances	265,195	290,584

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. Basis of Preparation

(a) General

These unaudited condensed consolidated financial statements for the six months ended 30 June 2010 (the "Interim Financial Statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Interim Financial Statements should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2009.

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 2009.

(b) Going Concern

After series of negotiations with the holders (the "Noteholders") of the convertible notes (the "Notes" or "convertible note") and the lenders of a term loan of HK\$220,000,000 ("Sky Honest Loan") about the settlement of the liabilities due to them which have been defaulted, there have been breakthroughs since 7 June 2010, the Company and certain subsidiaries entered into two agreements respectively with, amongst others, the trustee and security trustee acting on behalf of the Noteholders ("Settlement Agreement") and the facility and security agent acting for the Sky Honest Loan lenders ("Restructuring Agreement"). Pursuant to the two agreements, the indebtedness due to the two groups of creditors are reduced to US\$153,600,000 for the Notes and HK\$176,000,000 for the Sky Honest Loan if the Group can satisfy the payment obligations on or before 4 October 2010. Settlements beyond then but before 4 January 2011 are subject to surcharges. However, failure to meet with these obligations before 4 January 2011 will render the Settlement Agreement and Restructuring Agreement invalid.

In view of the moratorium, the petitioner for the winding up order made an application for the discharge of the winding up order and subsequently on 9 July 2010, the High Court discharged the winding up order of the Company and dismissed the provisional liquidators who were appointed by the High Court on 6 November 2009.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

1. Basis of Preparation (Continued)

(b) Going Concern (Continued)

Pursuant to the two agreements entered with the creditors, securities that have been accelerated by receivers appointed by the creditors by reason of defaults under the trust deed dated 4 May 2007 (the "Trust Deed") and the Sky Honest Loan were restored and the receivers appointed by the Noteholders and Sky Honest Loan lenders were discharged on 23 July 2010. Simultaneously, the boards of directors of the subsidiaries of the Company under receivership are restored to their original positions at the time prior to the acceleration of the Notes and operations of the Group has now resumed normal.

On 26 July 2010, a framework agreement for the disposal of the entire equity interest in a subsidiary engaged in the development of the Tianhe Project was entered into with a third party for a gross sale consideration of RMB1,090,000,000 (equivalent to approximately HK\$1,253,450,000) (the "Disposal"). The details of the Disposal are disclosed in note 22 "Events After The End of The Reporting Period".

The series of restructuring programs mentioned in the aforesaid paragraphs indicate that the financial position of the Group is being stabilised. Accordingly, 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 that the business of the Group is a going concern after having considered the assumptions and qualifications that may have material effects on the foreseeable period covering the next twelve months since at the end of the reporting period. Key assumptions of a going concern rest on successful implementation of the Disposal, the fulfillment of all the Group's obligations under the Settlement Agreement and Restructuring Agreement, a stable general economic performance in the PRC and the real estate sector, and additional banking facilities, if required, to finance the construction work in progress and project commencing construction.

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 2010. HKFRSs comprise Hong Kong Financial Reporting Standards, HKASs and Interpretations. Except for the adoption of HKAS 17 (Amendment) - "Improvements to HKFRSs 2009", 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

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

The amendment to HKAS 17 made under “Improvements to HKFRSs 2009”, mandatory for accounting periods beginning on or after 1 January 2010, removes the specific guidance which stated that land held under a lease should be classified as an operating lease unless title to the land is expected to pass at the end of the lease term. It provides new guidance which indicates that entity should use judgement to decide whether the lease transfers the significant risks and rewards of ownership of the land in accordance with the criteria set out in HKAS 17. The Group will reassess the classification of land elements of unexpired leases at the date it adopts the amendment on the basis of information existing at the inception of the lease and recognise a lease newly classified as a finance lease retrospectively if the criteria of a finance lease is met.

As substantially all risks and rewards of all the prepaid lease payments are considered having been transferred to the Group, according to the amended policy, the Group’s interests in prepaid lease payment are now accounted for as assets held under finance leases whereas payments for hotel properties and office building for self use are stated at cost less accumulated depreciation and payments for investment properties, properties held for sale and under development are accounted for at fair values or at cost less impairment loss. The amendment has been applied retrospectively to unexpired leases since 1 January 2010 on the basis of information existing at the inception of the leases. On the ground that the hotel properties and office building were disposed of prior to the previous reporting period for the year ended 31 December 2009, there has not been an overall effect on the retained earnings as a result of the adoption of this amendment.

The retrospective effects of the amendment caused to the financial position as at 31 December 2009 are as follow:

	As previously reported HK\$'000	Reclassification HK\$'000	As restated HK\$'000
Consolidated Statement of Financial Position as at 31 December 2009			
Prepaid lease payments	629,365	(629,365)	–
Properties held for development	1,061,511	501,942	1,563,453
Properties under development	<u>198,933</u>	<u>127,423</u>	<u>326,356</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

3. Revenue and Segment Reporting

On 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 and related ancillary services (“hotel operation”).

As management of the Group considers that all consolidated revenue are attributable to the markets in the PRC and consolidated non-current assets are substantially located inside the PRC, no geographical information is presented.

The Group’s reportable segments under HKFRS 8 are as follows:

Property development	–	Property development and sale of properties
Property investment	–	Property leasing
Hotel operation	–	Hotel operation and provision of related ancillary services

The Group’s senior executive management monitors the results attributable to each reportable segment on the basis that revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments, the expenses directly incurred by those segments and the depreciation or amortisation charges of assets attributable to those segments. Corporate expenses, finance costs and income and any non-operating items which cannot be directly associated with the reportable segments are not allocated to the respective segments.

The measure used for reporting segment results is operating (loss) earning before interest (finance costs and income), income tax, depreciation and amortisation (“adjusted EBITDA”). In addition to information concerning adjusted EBITDA, the management also provides other segment information concerning share of loss of associate (net of tax), depreciation and amortisation and fair value changes in investment properties.

Segment assets/liabilities include all assets/liabilities attributable to those segments with the exception of financial instruments as derivative, cash and bank balances, unallocated bank and other borrowings, convertible notes and taxes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

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 in the Interim Financial Statements is set out below:

(a) Segment results, assets and liabilities

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Total HK\$'000
Six months ended 30 June 2010 (Unaudited)				
Reportable segment revenue				
– external, and consolidated revenue	<u>158</u>	<u>8,487</u>	<u>–</u>	<u>8,645</u>
Operating results	(10,077)	5,911	218	(3,948)
Add: Depreciation and amortisation	<u>118</u>	<u>1</u>	<u>–</u>	<u>119</u>
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	<u>(9,959)</u>	<u>5,912</u>	<u>218</u>	<u>(3,829)</u>
Write-back of impairment loss on trade and other receivable	–	41	–	41
Share of loss of associate, net of tax	(8,537)	–	–	(8,537)
Capital expenditure incurred during the period	<u>109,221</u>	<u>–</u>	<u>–</u>	<u>109,221</u>
As at 30 June 2010 (Unaudited)				
Assets				
Reportable segment assets	<u>2,850,093</u>	<u>423,386</u>	<u>28,744</u>	<u>3,302,223</u>
Liabilities				
Reportable segment liabilities	<u>809,751</u>	<u>18,236</u>	<u>18,842</u>	<u>846,829</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

3. Revenue and Segment Reporting (Continued)

(a) Segment results, assets and liabilities (Continued)

	Property development HK\$'000	Property investment HK\$'000	Hotel operation HK\$'000	Total HK\$'000
Six months ended 30 June 2009 (Unaudited)				
Reportable segment revenue				
– external, and consolidated revenue	<u>21,798</u>	<u>8,041</u>	<u>112,238</u>	<u>142,077</u>
Operating results	(1,137)	4,966	(2,869)	960
Add: Depreciation and amortisation	<u>5,598</u>	<u>5</u>	<u>39,130</u>	<u>44,733</u>
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)				
	<u>4,461</u>	<u>4,971</u>	<u>36,261</u>	<u>45,693</u>
Capital expenditure incurred during the period	<u>79,394</u>	<u>–</u>	<u>242</u>	<u>79,636</u>
As at 31 December 2009 (Audited and Restated)				
Assets				
Reportable segment assets	<u>3,092,982</u>	<u>417,946</u>	<u>687,425</u>	<u>4,198,353</u>
Liabilities				
Reportable segment liabilities	<u>727,930</u>	<u>18,712</u>	<u>40,926</u>	<u>787,568</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

3. Revenue and Segment Reporting (Continued)

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

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Results		
Reportable segment results before interest, income tax, depreciation and amortisation (adjusted EBITDA)	(3,829)	45,693
Unallocated corporate expenses before depreciation and amortisation	(8,438)	(11,447)
	(12,267)	34,246
Depreciation and amortisation		
– Reportable segment	(119)	(44,733)
– Unallocated	(179)	(2,992)
	(12,565)	(13,479)
Fair value changes in financial derivative liabilities in relation to convertible notes	–	(263,951)
Reduction in debts as compromised with creditors	936,156	–
Share of loss of associate, net of tax	(8,537)	–
Finance costs	(8,168)	(120,950)
Finance income	1,372	316
Consolidated profit (loss) before income tax	908,258	(398,064)
Capital expenditure incurred during the period		
– Reportable segment	109,221	79,636
– Unallocated	–	10
	109,221	79,646

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

3. Revenue and Segment Reporting (Continued)

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Assets		
Reportable segment assets	3,302,223	4,198,353
Restricted and pledged deposits	31,637	38,547
Cash and cash equivalents	265,195	114,719
Unallocated corporate assets	842	1,161
Consolidated total assets	3,599,897	4,352,780
Liabilities		
Reportable segment liabilities	846,829	787,568
Income tax payable	29,414	120,052
Deferred tax liabilities	159,324	157,405
Convertible notes	399,671	2,057,326
Unallocated bank and other borrowings	356,769	369,083
Unallocated corporate liabilities	28,035	12,887
Consolidated total liabilities	1,820,042	3,504,321

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

4. Reduction in Debts as Compromised with Creditors

	Six months ended 30 June 2010 (Unaudited)		
	Other borrowings HK\$'000 (Note 14)	Convertible notes HK\$'000 (Note 15)	Total HK\$'000
Write-down of principal	44,000	299,977	343,977
Reverse of interests accrued up to 31 December 2009	34,496	557,683	592,179
Gain recognised to profit or loss	78,496	857,660	936,156

5. Finance Costs

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Interest on convertible notes wholly repayable within five years	–	105,196
Interest on bank and other borrowings		
– wholly repayable within five years	9,515	29,587
– wholly repayable after five years	2,660	36,092
Interest on short-term loan from a director	29	97
	12,204	170,972
<i>Less: Amount capitalised as properties held for/under development</i>		
Interest on convertible notes wholly repayable within five years	–	(44,182)
Interest on bank and other borrowings wholly repayable within five years	(4,036)	(9,357)
	(4,036)	(53,539)
	8,168	117,433
Other borrowing costs	–	14,727
<i>Less: Amount capitalised as properties held for/under development</i>	–	(11,210)
	–	3,517
Finance costs charged to profit or loss	8,168	120,950

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

6. Profit (Loss) Before Income Tax

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

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Cost of materials sold	–	10,795
Staff costs (including Directors' emoluments) comprise:		
– Basic salaries and other benefits	7,369	33,152
– Bonuses	–	1,412
– Equity-settled share-based payment expenses	–	240
– Contributions to defined contribution pension plans	582	1,256
Total staff costs (including Directors' emoluments)	7,951	36,060
Less: Amount capitalised as properties held for/under development	(2,248)	(3,305)
	5,703	32,755
Auditors' remuneration – current year	407	672
Depreciation of property, plant and equipment	324	38,575
Less: Amount capitalised as properties held for/under development	(26)	(12)
Total depreciation charged to consolidated statement of comprehensive income	298	38,563
Share of loss of associate, net of tax	8,537	–
Exchange (gain) loss, net	(8,448)	(284)
Write back of impairment losses on rental receivables	(41)	–
Provision of impairment losses on rental receivables	–	396

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

7. Income Tax Credit

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Current tax		
Overseas corporate tax	–	–
Deferred tax		
– current year	–	1,788
Total income tax credit	–	1,788

No provision for Hong Kong profits tax has been made for the six months ended 30 June 2010 (six months ended 30 June 2009: 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 2009: 16.5%) on the estimated assessable profits for the six months ended 30 June 2010.

Enterprise income tax arising from other regions of The People's Republic of China is calculated at 25% (six months ended 30 June 2009: 25%) on the estimated assessable profits. No tax provision for the PRC enterprise income has been made for the period as a result of the taxable loss brought forward. Taxation for the Group's operations outside Hong Kong is provided at the applicable current rates of taxation on the estimated assessable profits in the relevant jurisdiction during the period.

8. Dividends

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: HK\$Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

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:

	Six months ended 30 June	
	2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Profit (loss) for the purposes of basic and diluted earnings (loss) per share	910,369	(391,905)
	Number of shares	
	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted earnings (loss) per share	1,477,687	1,477,687

For the six months ended 30 June 2010, basic earnings (loss) per share is same as diluted earnings (loss) per share as any effect is anti-dilutive.

10. Property, Plant and Equipment and Investment Properties

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

	Property, plant and equipment HK\$'000	Investment properties HK\$'000
Net book value at 1 January 2010 (Audited)	1,111	416,951
Additions	103	–
Depreciation	(324)	–
Exchange differences	9	5,082
Net book value at 30 June 2010 (Unaudited)	899	422,033

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

11. Trade and Other Receivables

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Total trade receivables, net of impairment, with current credit period or current period less than 1 month	47	110
Deposits, prepayments and other receivables	31,852	31,846
	31,899	31,956

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.

12. Restricted and Pledged Deposits

Cash of approximately of HK\$32 million held at the end of the reporting period was restricted for construction costs of works-in-progress whilst cash in bank accounts of approximately HK\$17 million (31 December 2009: HK\$22 million) previously placed in deposits and restricted for the payment of interests to Noteholders was transferred out from the deposits for the partial payment of the final installment due to the Noteholders pursuant to the Settlement Agreement. These 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 2010

13. Trade and Other Payables

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

	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Current or less than 1 month	230	750
1 to 3 months	141	71
More than 3 months but less than 12 months	1,227	538
More than 12 months	3,460	3,418
Total trade payables	5,058	4,777
Construction costs payable	27,620	17,474
Advanced payments received from customers		
– Pre-sale deposits received from buyers	370,471	246,188
– Receipts in advance, rental and other deposits from customers and/or tenants	6,387	1,980
Accrued transaction costs in relation to a disposal of a subsidiary	33,248	72,217
Accruals and other payables	47,216	75,435
	490,000	418,071

14. Bank and Other Borrowings

	<i>Notes</i>	30 June 2010 HK\$'000 (Unaudited)	31 December 2009 HK\$'000 (Audited)
Interest-bearing, secured			
– bank borrowings	(a)	246,090	247,103
– other borrowings			
(i) Sky Honest Loan	(b)	176,000	220,000
(ii) Other	(c)	49,674	49,674
Interest-bearing, unsecured			
– Other short term loan	(d)	34,499	–
		506,263	516,777
Amounts due within one year included in current liabilities		(268,223)	(277,627)
Amounts due after one year		238,040	239,150

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

14. Bank and Other Borrowings (Continued)

Notes:

- (a) As at 30 June 2010, the bank borrowings are secured by mortgages of ownership titles of properties held for/under development and investment properties. The bank loans carry interest at variable market rates ranging from 5.35% to 5.40% per annum as at 30 June 2010. The amounts will be fully repaid in 2012 and 2019.
- (b) As at 30 June 2010, included in the interest-bearing and secured other borrowings is Sky Honest Loan which is advanced from two financial institutions and is secured by a time deposit, 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 the development of the Tianhe Project. The Sky Honest Loan was due for repayment on 29 January 2009.

On 9 November 2009, the lenders of Sky Honest Loan have taken enforcement action on the security assets and appointed the receivers who nominated representatives to replace the existing directors in the boards of certain subsidiaries of the Company the shares of which have been pledged in favour of the lenders mentioned above.

As disclosed in note 1(b), on 9 June 2010, the Company and certain subsidiaries entered into the Restructuring Agreement with Lehman Brothers Commercial Corporation Asia Limited (In Liquidation) ("LBCCAL"), as the facility and security agent acting for the Sky Honest Loan lenders. Pursuant to the Restructuring Agreement, the indebtedness due to the Sky Honest Loan lenders is reduced to HK\$176,000,000, which is 80% of the outstanding principal of the Sky Honest Loan, if the Group can satisfy the payment obligations on or before 4 October 2010. Settlements beyond then but before 4 January 2011 are subject to surcharges in the amount of HK\$1,987,064 representing 3.334% on the unsettled amount for the first extension month and an amount of HK\$3,454,024, representing 3.334% on HK\$105,600,000 for each of the second and third extension months. However, failure to meet with these obligations before 4 January 2010 will render the Restructuring Agreement invalid. On 2 July, the first installment plus reimbursable expenses of HK\$116,400,000 was settled in compliance with the Restructuring Agreement.

Taking the view of the moratorium, the Sky Honest Loan is recorded in the accounts at the compromised amounts. Accordingly, the indebtedness due for the Sky Honest Loan is written down and the accrued interests of approximately HK\$34,496,000 reversed, leading to a gain totaling approximately HK\$78,496,000 (as disclosed in note 4) recognised in the current period.

- (c) As at 30 June 2010, included in the interest-bearing and secured other borrowings is another balance of approximately HK\$49,674,000 which represents the balance of consideration payable to the vendor for acquisition of a subsidiary in 2006. The balance is secured by the Company's corporate guarantee, carries interest at the rate of 20% per annum and is repayable by 31 December 2010.
- (d) The balance is due to a third party's advance to a subsidiary which carried interest at the rate of 20% per annum and is unsecured and repayable in June 2011.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

15. Convertible Notes

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. The convertible 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 movements of loan components of the Notes are as follows:

	Nominal value HK\$'000	Carrying amount		Total HK\$'000
		Liabilities component HK\$'000	Financial derivative components HK\$'000	
At 1 January 2009 (Audited)	1,499,885	306,337	93,162	399,499
Accrued interest expense				
– amortisation for the year	–	238,865	–	238,865
– at acceleration of liabilities payable to the Noteholders	–	1,542,122	–	1,542,122
Interest paid	–	(29,998)	–	(29,998)
Fair value changes in financial derivative liabilities up to the date of extinguishment	–	–	(93,162)	(93,162)
At 31 December 2009 (Audited) and at 1 January 2010	1,499,885	2,057,326	–	2,057,326
Reduction in debts as compromised with the Noteholders				
– write-down of principal	(299,977)	(299,977)	–	(299,977)
– reverse interests accrued up to 31 December 2009	–	(557,441)	–	(557,441)
Debt compromised on 7 June 2010	1,199,908	1,199,908	–	1,199,908
First instalment paid	(777,200)	(777,200)	–	(777,200)
Partial payment of the final installment	(16,949)	(16,949)	–	(16,949)
Exchange differences	(6,088)	(6,088)	–	(6,088)
At 31 December 2010 (Unaudited)	399,671	399,671	–	399,671

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

15. Convertible Notes (Continued)

As disclosed in note 1(b), on 7 June 2010, the Company and certain subsidiaries and Mr. Yu Pan entered into the Settlement Agreement with the trustee and security trustee acting on behalf of the Noteholders. Pursuant to the Settlement Agreement, the indebtedness due to the Noteholders is reduced to US\$153,600,000, being 80% of the outstanding face value of the Notes, for the Notes if the Group can satisfy the payment obligations on or before 4 October 2010. Settlements beyond then but before 4 January 2011 are subject to surcharges in the amount of US\$1,787,024, representing 3.334% on US\$53,600,000 for the first extension month and an amount of US\$3,067,280, representing 3.334% on US\$92,000,000, for the each of second and third extension months. However, failure to meet with these obligations before 4 January 2011 will render the Settlement Agreement invalid.

Taking the view of above, the Notes are recorded in the accounts at the compromised amount. Accordingly, the indebtedness due for the Notes are written down and the accrued interests reversed, leading to a gain of approximately HK\$857,660,000 (as disclosed in note 4) recognised in the current period. After the payment of the first installment and partial payment of the final installment, the outstanding balance to be settled is approximately US\$51,420,000 (approximately HK\$399,671,000) at the end of the reporting date.

The Group's obligations under Notes to the Noteholders are secured by (i) shares of certain subsidiaries of the Company which hold equity interest in other subsidiaries engaged in property development and (ii) shares of the Company beneficially held by Mr. Yu Pan, details of which have been disclosed in note 19(b).

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 eighteen months from the end of the reporting period.

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 2009 (Audited),						
at 1 January 2010 and 30 June 2010 (Unaudited)	29,000,000	1,000,000	30,000,000	290,000	10,000	300,000
Issued and fully paid:						
At 31 December 2009 (Audited),						
at 1 January 2010 and 30 June 2010 (Unaudited)	1,477,687	-	1,477,687	14,777	-	14,777

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

18. Equity-settled Share-based Transactions

During the six months ended 30 June 2010 and 30 June 2009, 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 150,000 share options were lapsed during the six months ended 30 June 2010. No share options were exercised and lapsed during 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	
		2010 HK\$'000 (Unaudited)	2009 HK\$'000 (Unaudited)
Mr. Yu Pan, Chairman of the Company	Interest on short-term loan advanced by a director	29	97
Companies controlled by Mr. Yu Pan	Rental income from office leasing	–	3,382

(b) Pledge of shares by controlling shareholder

To secure for the convertible notes 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.

Grand Cosmos was put into receivership pursuant to an acceleration notice issued to the Company on 2 November 2009 by the Trustee under the Trust Deed in relation to the Notes. In consequence of the receivership, the board of director of Grand Cosmos was changed whereas a representative of the receivers was appointed to the board of director of Grand Cosmos to replace Mr. Yu Pan.

Pursuant to Settlement Agreement entered with the Noteholders, securities that have been accelerated by receivers appointed by the creditors by reason of defaults under the Trust Deed were restored and the receivers appointed by the Noteholders were discharged on 23 July 2010. Simultaneously, the board of directors of Grand Cosmos are restored to its original position to the time prior to the acceleration of the Notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

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	
	2010	2009
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term benefits	3,846	7,797
Other long-term benefits	107	134
Equity-settled share-based payment expenses	–	117
	3,953	8,048

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
	2010	2009
	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	1,099,146	1,094,981

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

21. Contingent Liabilities

Since the reaching of a moratorium with the Noteholders and the Sky Honest Loan lenders in June 2010, the Notes and the Sky Honest Loan have been recorded at the settlement amounts as compromised under the Settlement Agreement and Restructuring Agreement. As a result, the carrying amounts of indebtedness due for the Notes and the Sky Honest Loan are written down and the accrued interests reversed in the current period. Up to the date of this report, the Group have carried out due performance in the first installment payments to the Noteholders and Sky Honest Loan lenders in an aggregate amount of approximately HK\$894 million. Subject to the due payment of the remaining final installments totaling approximately HK\$480 million, plus surcharges (if applicable) and reimbursable costs on or before 4 January 2011, the Notes will be cancelled and the Sky Honest Loan will be discharged. In the event that the final installments cannot be settled in due course, the indebtedness, in outstanding principal and interests accrued thereon due in respect of the Notes and the Sky Honest Loan will be restated to their original outstanding balances net of payments made by the Group. In such event, the Group will have to bear additional liabilities arising from the restatement of principal sums due to the Noteholders and Sky Honest Loan lenders and interests accrued thereon up to 30 June 2010 in an aggregate of approximately HK\$1,098.4 million (31 December 2009: HK\$Nil).

22. Events after the End of the Reporting Period

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

(a) Disposal of 100% equity interest in the Tianhe Project

On 26 July 2010, a framework agreement for the disposal of the entire equity interest in a subsidiary engaged in the development of the Tianhe Project was entered into with a third party for a gross sale consideration of RMB1,090,000,000 (equivalent to approximately HK\$1,253 million). The Disposal is expected to be completed in October 2010 and the amount of approximately HK\$566 million, being the gross amount of the first installment payment from the purchaser of RMB600 million net of direct expenses and taxes, will be applied sufficiently for the payments of the outstanding balances due to the Noteholders and Sky Honest Loan lenders under the Settlement Agreement and Restructuring Agreement. The total committed sum payable to the Noteholders and Sky Honest Loan lenders, if the Disposal is implemented on schedule and funds are repatriated in Hong Kong in mid-November 2010, is estimated at approximately HK\$493 million, inclusive of surcharges, costs and expenses. The residue installments receivable from the purchaser totaling RMB370 million, after taking into account certain price adjustments for future development and finance costs that are to be borne by the vendor and estimated at RMB120 million, will be retained in the Group for its working capital.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the six months ended 30 June 2010

22. Events after the End of the Reporting Period (Continued)

(b) Termination on Co-operation Agreement in relation to Tianhe Project

On 30 July 2010, the Company entered into an agreement with 廣西廣利貿易有限責任公司 (Guangxi Guang Li Trading Limited) ("Guang Li"), a party which is a cooperative partner in the development of the Tianhe project, to terminate the first and second agreement dated 4 February 2010 and 21 February 2010. Pursuant to the termination agreement, no compensation has to be paid by the Group to Guang Li.

(c) Discharge of the Winding-up Order

As a consequence of the moratoriums reached with the Noteholders and Sky Honest Loan lenders, the creditor and petitioner for the winding up order also agreed not to accelerate the debt due by a subsidiary for which the Company is a guarantor, made an application for the discharge of the winding up order and subsequently on 9 July 2010, the High Court discharged the winding up order of the Company and dismissed the provisional liquidators.

(d) Settlement with a Creditor

On 28 July 2010, a supplemental settlement agreement was entered into between the Company and a creditor of a subsidiary who has been the petitioner of the winding up order. Pursuant to the supplemental settlement agreement, those terms in a settlement agreement reached on 27 January 2010 between the same parties were amended in order that the repayment period of the outstanding debt due to the creditor in a principal amount of approximately HK\$49,674,000 plus accrued interests be extended to 31 December 2010.

OTHER INFORMATION

Interim Dividend

The Board does not recommend the payment of interim dividend in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

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

As at 30 June 2010, the interests and short positions of the Directors and chief executives of the Company in the share 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 ("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 ("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	1,058,112,271 (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 Holdings Limited ("Grand Cosmos"). The entire issued share capital of Grand Cosmos was held by Sharp Bright International Limited ("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. Grand Cosmos was put into receivership pursuant to an acceleration notice issued to the Company on 2 November 2009 by the trustee under the Trust Deed in relation to the US\$200 million Notes. In consequence of the receivership, the board of director of Grand Cosmos was changed whereas representatives of the receivers were appointed to the board of directors of Grand Cosmos to replace Mr. Yu Pan. Following the execution of security restoration agreement on 16 July 2010, the nominee directors resigned and Mr. Yu was re-appointed as director of Grand Cosmos on 23 July 2010.
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 2010.

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 2010, the following Directors had interests as beneficial owners in options to subscribe for Shares granted under the share option scheme adopted by the Company on 4 August 2005 (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 2010.

Save as disclosed above, as at 30 June 2010, 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 2010, 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 9)</i>
Sharp Bright International Limited	Interest of controlled corporation	963,776,271 (long) <i>(note 1)</i>	65.22%
Grand Cosmos Holdings Limited	Beneficial owner	963,776,271 (long) <i>(note 1)</i>	65.22%
HSBC Holdings plc	Interests of controlled corporation	963,776,277 <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	1,345,082,656 (long) <i>(note 5)</i>	91.03%

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 9)</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	1,345,082,656 (long) <i>(note 5)</i>	91.03%
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	1,345,082,656 (long) <i>(note 5)</i>	91.03%
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	1,345,082,656 (long) <i>(note 5)</i>	91.03%
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	1,345,082,656 (long) <i>(note 5)</i>	91.03%
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	285,240,908 (long) <i>(note 6)</i>	19.30%
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	1,059,841,748 (long) <i>(note 7)</i>	71.72%

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 9)</i>
Deutsche Bank Aktiengesellschaft	Person having a security interest in Shares	82,806,140 (long)	5.60%
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%

Notes:

- 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, The Hongkong and Shanghai banking Corporation Limited ("HSBC"), by way of share charge dated 4 May 2007. Grand Cosmos was put into receivership pursuant to an acceleration notice issued to the Company on 2 November 2009 by the trustee under the Trust Deed in relation to the US\$200 million Notes. In consequence of the receivership, the board of directors of Grand Cosmos was changed whereas representatives of the receivers were appointed to the board of directors of Grand Cosmos to replace Mr. Yu Pan. According to the corporate substantial shareholder notice filed by HSBC Holdings plc on 4 November 2009, HSBC Holdings plc was deemed to be interested in the Shares as a result of HSBC (a corporation indirectly controlled by HSBC Holdings plc), as a security trustee, has taken steps to enforce its rights in respect of the shares of Grand Cosmos charged. Following the execution of security restoration agreement on 16 July 2010, the nominee directors resigned and Mr. Yu was re-appointed as director of Grand Cosmos on 23 July 2010 and HSBC Holdings plc ceased to have interest in the Shares.
- 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. Fund 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.

OTHER INFORMATION *(Continued)*

Substantial Shareholders *(Continued)*

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

Notes: *(Continued)*

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.
5. These Shares comprised (i) 6,335,185 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) 6,335,185 existing Shares; (ii) 200,786,723 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) 78,119,000 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.
7. These Shares comprised (i) 762,989,548 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) 296,852,200 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.
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. 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 2010.

Save as disclosed above, as at 30 June 2010, 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 share 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 2010.

Date of grant	Exercise period	Vesting period	Exercise price HK\$	Number of options outstanding at 31 December 2009	Lapsed during the period	Number of options outstanding at 30 June 2010
12 September 2006	13 March 2007 to 31 July 2015	Six months from the date of grant	\$1.31	15,340,000	(50,000)	15,290,000
12 September 2006	13 March 2008 to 31 July 2015	One and a half years from the date of grant	\$1.31	15,340,000	(50,000)	15,290,000
12 September 2006	13 March 2009 to 31 July 2015	Two and a half years from date of grant	\$1.31	15,370,000	(50,000)	15,320,000
				<u>46,050,000</u>	<u>(150,000)</u>	<u>45,900,000</u>
<i>Analysis of category:</i>						
				4,800,000	-	4,800,000
				17,100,000	-	17,100,000
				<u>24,150,000</u>	<u>(150,000)</u>	<u>24,000,000</u>
				<u>46,050,000</u>	<u>(150,000)</u>	<u>45,900,000</u>

During the period, no share options were granted and exercised while 150,000 share options were lapsed under the 2005 Scheme. There were 45,900,000 share options outstanding as at 30 June 2010.

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.

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 2010.

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, 4 August 2010