



SRE GROUP LIMITED
上置集團有限公司

(Stock Code : 1207)

INTERIM REPORT 2012



Group Financial Highlights

For the six months ended
30 June 2012

Revenue (HK\$'000)	1,992,112
Net Profit attributable to owners of the parent (HK\$'000)	228,856
Basic earnings per share (HK cents)	4.52
Dividend per share-Interim (HK cents)	–

Interim Results

The Board of Directors (“the Board”) of SRE Group Limited is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (“the Group”) for the six months ended 30 June 2012 together with comparative figures for the previous corresponding period in 2011. The unaudited interim financial statements for the six months ended 30 June 2012 have been reviewed by the Company’s Audit Committee.

Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2012 Unaudited	2011 Unaudited
Revenue	3	1,992,112	2,382,651
Cost of sales		(1,348,615)	(1,744,131)
Gross profit		643,497	638,520
Selling and marketing costs		(75,219)	(84,885)
Administrative expenses		(186,364)	(209,910)
Other gains – net	4	304,801	93,556
Operating profit		686,715	437,281
Finance income		14,554	54,573
Finance costs		(235,249)	(198,104)
Finance costs – net		(220,695)	(143,531)
Share of profits of:			
Jointly-controlled entities		351	–
Associates		2,811	3,344
Profit before tax		469,182	297,094
Income tax expense	5	(256,587)	(226,735)
Profit for the period		212,595	70,359
Other comprehensive income			
Exchange differences on translation of financial statements into presentation currency		(73,486)	271,763
Other comprehensive income for the period, net of tax		(73,486)	271,763
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		139,109	342,122

Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2012 Unaudited	2011 Unaudited
Profit attributable to:			
Owners of the parent		228,856	149,233
Non-controlling interests		(16,261)	(78,874)
		212,595	70,359
Total comprehensive income attributable to:			
Owners of the parent		169,053	357,366
Non-controlling interests		(29,944)	(15,244)
		139,109	342,122
Earnings per share attributable			
to ordinary equity holders of the parent	6		
– Basic		4.52 cents	3.68 cents
– Diluted		4.52 cents	3.68 cents

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statement of Financial Position

As at 30 June 2012 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

		30 June 2012	31 December 2011
	Notes	Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment		3,067,725	3,000,131
Completed investment properties		5,301,129	6,604,711
Investment properties under construction		122,706	123,350
Prepaid land lease payments		524,677	507,906
Goodwill		644,979	648,558
Investments in jointly-controlled entities		72,245	48,241
Investments in associates		79,747	77,372
Derivative financial asset	7	53,974	54,027
Deferred tax assets		599,650	604,208
Non-current trade receivables	9	66,753	86,225
Non-current prepayments		805,346	821,086
Other non-current assets		57,085	58,561
		11,396,016	12,634,376
Current assets			
Prepaid land lease payments		12,003,515	12,418,981
Properties held or under development for sale		9,409,072	8,095,259
Land development for sale		6,353,078	6,366,044
Inventories		22,503	18,234
Amounts due from associates		–	304
Prepayments and other current assets		390,020	372,213
Other receivables		1,048,119	945,266
Trade receivables	9	125,828	101,948
Prepaid income tax		226,130	181,805
Cash and bank balances		3,082,936	2,521,487
		32,661,201	31,021,541
Total assets		44,057,217	43,655,917

Interim Consolidated Statement of Financial Position

As at 30 June 2012 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	30 June 2012 Unaudited	31 December 2011 Audited
EQUITY AND LIABILITIES			
Equity			
Issued capital and premium		6,004,141	5,791,714
Other reserves		1,629,275	1,689,923
Retained profits		3,237,747	3,006,887
Equity attributable to owners of the parent		10,871,163	10,488,524
Non-controlling interests		2,459,040	2,485,979
Total equity		13,330,203	12,974,503
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		8,034,637	10,200,708
Guaranteed senior notes		–	559,646
Deferred income from sale of golf club membership		630,326	643,746
Deferred tax liabilities		1,935,267	2,241,957
		10,600,230	13,646,057
Current liabilities			
Interest-bearing bank and other borrowings		6,273,673	3,763,889
Convertible bonds – host debts		544,100	515,814
Guaranteed senior notes		560,339	–
Advances received from the pre-sale of properties under development		1,767,154	2,565,079
Trade payables	10	5,980,306	5,259,024
Other payables and accruals		2,092,294	2,001,353
Current income tax liabilities		2,150,350	2,216,346
Deferred income arising from land development		721,908	713,852
Amount due to a related company	11(d)	36,660	–
		20,126,784	17,035,357
Total liabilities		30,727,014	30,681,414
Total equity and liabilities		44,057,217	43,655,917
Net current assets		12,534,417	13,986,184
Total assets less current liabilities		23,930,433	26,620,560

The accompanying notes are an integral part of these interim consolidated financial statements.

Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

(Unaudited)

From 1 January 2012 to 30 June 2012

Attributable to owners of the parent

	Issued capital and premium	Assets revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Equity component of			Non- controlling interests	Total Equity	
						Other reserves	convertible bonds	Retained profits			
At 1 January 2012	5,791,714	1,211	248	291,131	1,478,517	(260,545)	179,361	3,006,887	10,488,524	2,485,979	12,974,503
Total comprehensive income for the period	-	-	-	-	(59,803)	-	-	228,856	169,053	(29,944)	139,109
Issue of rights shares	212,427	-	-	-	-	-	-	-	212,427	-	212,427
Capital contribution from Non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	2,462	2,462
Equity-settled share options to management of a subsidiary	-	-	-	-	-	1,159	-	-	1,159	543	1,702
Surplus reserve transfer to retained profits due to disposal of a subsidiary	-	-	-	(2,004)	-	-	-	2,004	-	-	-
At 30 June 2012	6,004,141	1,211	248	289,127	1,418,714	(259,386)	179,361	3,237,747	10,871,163	2,459,040	13,330,203

(Unaudited)

From 1 January 2011 to 30 June 2011

Attributable to owners of the parent

	Issued capital and premium	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Equity component of			Non- controlling interests	Total equity	
						Other reserves	convertible bonds	Retained profits			
At 1 January 2011	4,736,489	2,268	248	259,266	1,019,873	(318,523)	179,361	2,665,801	8,544,783	2,782,378	11,327,161
Total comprehensive income for the period	-	-	-	-	208,133	-	-	149,233	357,366	(15,244)	342,122
Issuance of new shares	567,000	-	-	-	-	-	-	-	567,000	-	567,000
Capital contribution from Non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	23,222	23,222
Equity-settled share options to management of a subsidiary	-	-	-	-	-	2,035	-	-	2,035	1,276	3,311
Dividends to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(28,332)	(28,332)
Final 2010 dividend declared											
- Cash Dividends	-	-	-	-	-	-	-	(61,523)	(61,523)	-	(61,523)
- Script Dividends	63,290	-	-	-	-	-	-	(63,290)	-	-	-
At 30 June 2011	5,366,779	2,268	248	259,266	1,228,006	(316,488)	179,361	2,690,221	9,409,661	2,763,300	12,172,961

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2012 (Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	2012 (unaudited)	2011 (unaudited)
Operating activities			
Cash used in operations	16	(148,415)	(1,274,274)
Income tax paid		(362,341)	(453,987)
Net cash flows used in operating activities		(510,756)	(1,728,261)
Investing activities			
Purchases of property, plant and equipment		(195,825)	(66,869)
Proceeds from disposal of property, plant and equipment		20	825
Construction of investment properties		(1,062)	(56,964)
Acquisition of subsidiaries, net of cash acquired		–	(156,000)
Proceeds from disposal of a subsidiary, net of cash disposed		(102,667)	–
Investment in jointly-controlled entities		(23,997)	(47,557)
Decrease in time deposits with original maturity of over three months		4,934	–
Dividends received from an associate		–	16,112
Interest received		7,294	13,003
Net cash flows used in investing activities		(311,303)	(297,450)
Financing activities			
Increasing in borrowings		1,759,652	537,462
Net proceeds from issue of new shares		212,427	567,000
Payments of expenses incurred for the listing of existing shares of a subsidiary		–	(4,569)
Increase in pledged bank deposits		(43,549)	–
Decrease in restricted deposits in relation to bank borrowing		12,221	–
Cash received from the capital injection from non-controlling shareholders of subsidiaries		2,462	22,897
Dividends paid to non-controlling shareholders of subsidiaries		–	(28,332)
Dividends paid to the Company's shareholders		–	(61,440)
Interest paid		(598,220)	(408,385)
Net cash flows generated from financing activities		1,344,993	624,633
Net increase/(decrease) in cash and cash equivalents		522,934	(1,401,078)
Effect of foreign exchange rate changes		(7,457)	98,147
Cash and cash equivalents, beginning of period		1,355,995	3,887,304
Cash and cash equivalents, end of period		1,871,454	2,584,373

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

1. Basis of preparation and accounting policies

1.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

1.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of new and revised standards and interpretations as of 1 January 2012, as described below:

HKAS 12 Amendment: Deferred Tax: Recovery of Underlying Assets

The amendment becomes effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in HKAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Currently, the amendment did not have significant impact on the financial statements of the Group.

HKFRS 1 Amendment: Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The amendment to HKFRS 1 is effective for annual periods beginning on or after 1 July 2011. The amendment introduces a new deemed cost exemption for entities that have been subject to severe hyperinflation. They also remove the fixed dates in HKFRS 1 relating to de-recognition and day one gain or loss transactions. Currently, the amendment did not have significant impact on the financial statements of the Group.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

1. Basis of preparation and accounting policies (continued)

1.2 Significant accounting policies (continued)

HKFRS 7 Amendment: Financial Instruments: Disclosures – Transfers of financial Assets

The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendments require more disclosure information that enables users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Currently, the amendments did not have significant impact on the Group's financial statements.

HKFRS 10: Consolidated Financial Statements

HKFRS 10 becomes effective for annual periods beginning on or after 1 January 2013. The Group decided to early adopted HKFRS 10 since 1 January 2012. It establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 Consolidation – Special Purpose Entities. HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. Currently, HKFRS 10 did not have significant impact on the Group's financial statements.

HKFRS 11: Joint Arrangements

HKFRS 11 becomes effective for annual periods beginning on or after 1 January 2013. The Group early adopted HKFRS 11 since 1 January 2012, as a result of early adoption HKFRS 10. It replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. Currently, HKFRS 11 did not have significant impact on the Group's financial statements.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

1. Basis of preparation and accounting policies (continued)

1.2 Significant accounting policies (continued)

HKFRS 12: Disclosure of Interests in Other Entities

HKFRS 12 becomes effective for annual periods beginning on or after 1 January 2013. The Group early adopted HKFRS 12 since 1 January 2012, as a result of early adoption HKFRS 10. It includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 Consolidated and Separate Financial Statements, HKAS 31 Interests in Joint Ventures and HKAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities. Currently, HKFRS 12 did not have significant impact on the Group's financial position and performance.

HKAS 27 (2011) Separate Financial Statements

HKAS 27 (2011) becomes effective for annual periods beginning on or after 1 January 2013. The Group early adopted HKAS 27 (2011) since 1 January 2012, as a result of early adoption HKFRS 10. HKAS 27 (2011) Separate Financial Statements contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. Currently, HKAS 27 (2011) did not have significant impact on the Group's financial statements.

HKAS 28 (2011) Investments in Associates and Joint Ventures

HKAS 28 (2011) becomes effective for annual periods beginning on or after 1 January 2013. The Group early adopted HKAS 28 (2011) since 1 January 2012, as a result of early adoption HKFRS 10. It prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Currently, HKAS 28 (2011) did not have significant impact on the Group's financial statements.

Upon adoption of HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011), the Group has also adopted the consequential amendments to HKFRS 1, HKFRS 2, HKFRS 3, HKFRS 4, HKFRS 5, HKFRS 8, HKAS 1, HKAS 19, HKAS 21, HKAS 24, HKAS, 32, HKAS 36, HKAS 39, HK(IFRIC) 4, HK (IFRIC) 5 and HK(IFRIC) 17. Consequential amendments above did not have significant impact on the financial statements of the Group.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

1. Basis of preparation and accounting policies (continued)

1.2 Significant accounting policies (continued)

HKAS 28 (2011) Investments in Associates and Joint Ventures (continued)

Except for HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011), the Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

2. Operating Segment Information

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

- The property development segment develops and sells residential and commercial properties;
- The land development segment engages in land infrastructure development and construction of ancillary public facilities;
- The property leasing segment leases offices and commercial properties owned by the Group which are classified as investment properties;
- The hotel operations segment provides hotel accommodation, hotel catering and conference hall services; and
- The corporate and other operations segment comprises, principally, golf course operations and the provision of property management services.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices on sales and transfers between operating segments are negotiated on an arm's length basis in a manner similar to transactions with third parties.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

2. Operating Segment Information (continued)

An analysis by business segment is as follows:

	Six months ended 30 June 2012 (unaudited)					Total
	Property development	Land development	Property leasing	Hotel operations	Corporate and other operations	
Segment revenue						
Sales to external customers	1,610,185	68,666	82,924	117,680	112,657	1,992,112
Intersegment sales	-	-	-	939	75,080	76,019
	<u>1,610,185</u>	<u>68,666</u>	<u>82,924</u>	<u>118,619</u>	<u>187,737</u>	<u>2,068,131</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						(76,019)
Revenue						<u>1,992,112</u>
Segment profit/(loss)	<u>477,195</u>	<u>(73,620)</u>	<u>114,712</u>	<u>(48,874)</u>	<u>217,302</u>	<u>686,715</u>
Finance income						14,554
Finance costs						(235,249)
Finance costs – net						<u>(220,695)</u>
Share of profits of:						
Jointly-controlled entities						351
Associates						2,811
Profit before tax						<u>469,182</u>

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

2. Operating Segment Information (continued)

	Six months ended 30 June 2011 (unaudited)					Total
	Property development	Land development	Property leasing	Hotel operations	Corporate and other operations	
Segment revenue						
Sales to external customers	1,839,108	261,707	75,498	120,114	86,224	2,382,651
Intersegment sales	-	58,694	-	-	57,767	116,461
	1,839,108	320,401	75,498	120,114	143,991	2,499,112
<i>Reconciliation:</i>						
Elimination of intersegment sales						(116,461)
Revenue						2,382,651
Segment profit/(loss)	345,055	113,705	124,393	(51,872)	(94,000)	437,281
Finance income						54,573
Finance costs						(198,104)
Finance costs – net						(143,531)
Share of profits and losses of associates						3,344
Profit before tax						297,094

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

3. Revenue

Revenues recognized during the period are as follows:

	(unaudited)	
	For the six months ended 30 June	
	2012	2011
Sale of development properties	1,704,601	1,954,504
Revenue from land development	72,515	279,857
Hotel operations	124,646	127,378
Revenue from property leasing	89,447	80,232
Property management income	74,339	61,128
Golf operation	48,285	31,997
Revenue from construction of infrastructure for an intelligent network	534	4,316
Other revenue	1,508	749
	2,115,875	2,540,161
Less: Business tax and surcharges ^(a)	(123,763)	(157,510)
Total revenue	1,992,112	2,382,651

(a) Business tax and surcharges

Business tax is calculated at 5% of the revenue from the sale of properties, the development of land, hotel operations, the installation of intelligent home equipment, the provision of property management services and property leasing, at 20% of the revenue from golf operation and at 3% of the net income received from the construction of infrastructure for an intelligent network after deducting amounts payable to subcontractors.

Government surcharges are calculated at a certain percentage of business tax.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

4. Other Gains – net

	(unaudited)	
	For the six months ended 30 June	
	2012	2011
Gain on disposal of a subsidiary (Note 12)	226,121	–
Fair value gain on investment properties	75,700	89,980
Others	2,980	3,576
	304,801	93,556

5. Tax

	(unaudited)	
	For the six months ended 30 June	
	2012	2011
Current taxation		
– Mainland China income tax	206,538	120,037
– Mainland China LAT	49,027	92,244
	255,565	212,281
Deferred taxation		
– Mainland China income tax	(7,536)	(6,494)
– Mainland China withholding tax	(27,359)	32,146
– Mainland China LAT	35,917	(11,198)
	1,022	14,454
Total tax charge for the period	256,587	226,735

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

5. Tax (continued)

(a) Mainland China income tax

The Group conducts nearly entirely all of its business in Mainland China and the applicable income tax rate of its subsidiaries operating in Mainland China is generally 25%, in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

For the pre-sale of properties under development, the tax authorities may impose income tax ahead of the completion of sale transactions and revenue recognition, based on certain estimations.

(b) Other income tax

The Company is exempted from taxation in Bermuda until 2016. Taxes on profits assessable elsewhere are calculated at the rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the period.

(c) Mainland China land appreciation tax ("LAT")

LAT is incurred upon transfer of property ownership and is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from the sale of properties less deductible expenditures including land costs, borrowing costs, business taxes and all property development expenditures.

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transactions and revenue recognition, generally based on 1% to 5% on proceeds of the sale and pre-sale of properties.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

5. Tax (continued)

(d) Mainland China Withholding tax

Pursuant to the PRC Corporate Income Tax Law which became effective on 1 January 2008, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax arrangement between the PRC and the jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained profits as at 31 December 2007 are exempted from withholding tax.

6. Earnings per Share

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holder of the parent of HK\$228,856 thousand (2011: HK\$149,233 thousand) and the weighted average number of 5,060,855,314 ordinary shares (2011: 4,053,631,688 shares) in issue during the period, as adjusted to reflect the rights issue during the period. The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent of HK\$228,856 thousand (2011: HK\$149,230 thousand) and the diluted weighted average number of 5,060,855,314 shares (2011: 4,053,631,688 shares) in issue during the period. For the six months ended 30 June 2012, the calculation of diluted earning per share amount did not take into account the convertible bonds or the management stock option plan of a subsidiary because they are anti-dilutive.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

7. Derivative Financial Asset

The derivative financial asset represents a call option to purchase in aggregate up to 40% of the equity interest (the “Interest”) in Huarui Asset Management, at a price equivalent to the 90% of the fair value of the Interest based on valuation by an independent property valuer. This call option was acquired in a transaction with a shareholder of the Interest and may be exercised by the Company more than once from time to time and at any time during the period of 2 years from May 2010, which has been subsequently extended to 31st of December 2013.

8. Dividend

On 31 August 2012, the Board resolved not to declare an interim dividend for the six months ended 30 June 2012 (2011: Nil).

On the same day, the Board resolved to, subject to the shareholders’ approval in the special general meeting, distribute a special dividend in the form of a distribution in specie of all of 2,658,781,817 shares in China New Town Development Company Limited (“CNTD”) it owns to the shareholders.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

9. Trade Receivables

	30 June 2012 Unaudited	31 December 2011 Audited
Trade receivables	136,388	112,568
Less: Provision for impairment	(10,560)	(10,620)
	125,828	101,948
Non-current trade receivables	66,753	86,225
	192,581	188,173

An aging analysis of trade receivables is set out below:

	30 June 2012 Unaudited	31 December 2011 Audited
Within 6 months	30,887	22,510
6 months – 1 year	4,090	9,236
1 – 2 years	66,473	54,096
Over 2 years	101,691	112,951
	203,141	198,793

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

9. Trade Receivables (continued)

The Group's sale of development properties, hotel and golf (other than golf membership) operations are generally on cash basis. While the Group's trading terms with its customers for other operations are mainly on credit, the credit terms of the Group are as follows:

- Golf club membership fees: such fees are paid by installments, with a credit term ranging from 2 to 3 years;
- Land Development: there are no clearly specified credit terms, the receivables represent the Group's share of the proceeds from land sold by local governments through public auction, such receivables from the local governments are generally collectible within 6 months after the land sale. However, it may take the Group longer to receive certain portion (e.g. the amount attributable to public utility fee) of the receivables and sometimes more than one year;
- Others: generally within 6 months.

Except for the amounts receivable in respect of the sale of land due from the local governments, the Group's other trade receivables relate to a large number of diversified customers and there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The Group maintains strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

10. Trade Payables

	30 June 2012 Unaudited	31 December 2011 Audited
Trade payables	5,980,306	5,259,024

An aging analysis of trade payables is as follows:

	30 June 2012 Unaudited	31 December 2011 Audited
Within 1 year	5,185,434	4,273,196
1 – 2 years	194,158	643,046
Over 2 years	600,714	342,782
	5,980,306	5,259,024

Trade payables represent payables arising from property construction and land development. The trade payables are non-interest-bearing and are normally settled within one year.

11. Related Party Transactions

During the six months ended 30 June 2012, the Group entered into the following significant related party transactions:

- (a) On 3 April 2012, the Company entered into an agreement for a term loan of HK\$260 million. The loan is secured by among other things and a legal mortgage on a property in Hong Kong jointly owned by Mr. Shi Jian and Md. Si Xiao Dong.
- (b) On 30 April 2012, the Group announced the issuance of Rights Shares of HK\$0.10 each on the basis of one Rights Share for every seven Shares held by the Qualifying Shareholders on the Record Date at HK\$0.30 per Rights Share. The Rights Issue was fully underwritten by SRE Investment Holding Ltd., the controlling shareholder, to whom a commission of HK\$100,000 was paid. SRE Investment Holding Ltd. eventually subscribed a total of 538,306,965 Rights Shares.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

11. Related Party Transactions (continued)

- (c) As at 30 June 2012, the Group's bank and other borrowings of approximately HK\$897 million (31 December 2011: approximately HK\$902 million) were guaranteed by Mr. Shi Jian.
- (d) As of 30 June 2012, SRE owed SRE Investment Holding Ltd. US\$4.7 million (equivalent to HK\$36.66 million). This amount did not and will not carry interest and is payable on demand.

12. Disposal of a Subsidiary

In May 2012, the Group entered into an agreement for the disposal of its entire interest in Shanghai Rich Gate shops through the disposal of Go High Investment Limited, a wholly-owned subsidiary of the Group, at a consideration of RMB378,593 thousand (equivalent to HK\$465,903 thousand). The transaction was completed in June 2012. In accordance with the agreement, the purchaser has upon completion paid to the Group RMB352,164 thousand (equivalent to HK\$433,379 thousand) and, the remaining balance will be settled by the end of the third month following the completion date. As a result of the disposal, the Group recorded a gain of approximately HK\$226,121 thousand (Note 4).

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

13. Interest-bearing Bank and Other Borrowings

As at 30 June 2012, the aggregate bank and other borrowings of the Group amounted to approximately HK\$14,308 million (31 December 2011: approximately HK\$13,965 million), approximately HK\$14,140 million (31 December 2011: approximately HK\$13,705 million) of which were secured by mortgage of the Group's leasehold land, investment properties, property, plant and equipment and properties held or under development for sale, or by pledge of equity interest in subsidiaries, bank deposits and future property pre-sale proceeds.

As at 30 June 2012, bank deposits of approximately HK\$1,142 million (31 December 2011: approximately HK\$1,113 million), leasehold land of approximately HK\$7,077 million (31 December 2011: approximately HK\$6,638 million), investment properties of approximately HK\$5,404 million (31 December 2011: approximately HK\$6,708 million), properties held or under development for sale of approximately HK\$5,095 million (31 December 2011: approximately HK\$3,261 million), property, plant and equipment of approximately HK\$1,988 million (31 December 2011: approximately HK\$1,404 million), 100% equity interest in Bairun with a cost of approximately HK\$61 million (31 December 2011: approximately HK\$62 million), 95% equity interest in Jinwu with a cost of approximately HK\$515 million (31 December 2011: approximately HK\$518 million) and 72.63% equity interest in SGLD with a cost of approximately HK\$488 million (31 December 2011: approximately HK\$491 million) were pledged as collateral for the Group's long-term borrowings and banking facilities.

As at 30 June 2012, bank borrowings of HK\$1,349 million (31 December 2011: HK\$1,037 million) were secured by part of future property pre-sales proceeds. For some of such projects, pre-determined amounts of the pre-sale proceeds of certain units will be transferred to restricted bank accounts, until the balance of such restricted bank accounts reached the outstanding balance of such loans. For other such projects, related bank borrowings are required to be repaid when a pre-determined percentage of properties in the projects are pre-sold.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

14. Guaranteed Notes

On 24 April 2006, the Company issued guaranteed notes maturing on 24 April 2013 (the “Maturity Date”), with an aggregate principal amount of US\$200 million and a fixed interest rate of 8.625% per annum (the “Guaranteed Notes”). Some of the Guaranteed Notes were redeemed in July 2009 and the current outstanding principal amount is US\$71,461,000.

15. Convertible Bonds

On 23 July 2009 (the “Issue Date”), the Company issued convertible bonds (the “CB4”), maturing on 23 July 2014, for an aggregate principal amount of RMB446.9 million with an initial conversion price of HK\$1.056 per share and with a fixed exchange rate applicable to the conversion of RMB0.8818 = HK\$1.00 (subject to certain anti-dilutive adjustments). The coupon interest rate is 6% per annum, payable semi-annually in arrears on 23 Jan and 23 July in each year. The bondholders have the option to convert the CB4 to ordinary shares of the Company at any time after 41 days from the Issue Date to the 10th business day before its maturity. On 23 July 2012 (the “Put Option Date”), the bondholders will have the right (the “Put Option”) to require the Company to redeem all or some of the CB4 at a redemption price equal to the US Dollar Equivalent of 100% of their principal amount, together with unpaid accrued interest. The Company has the option to redeem at par all of the remaining CB4 if at least 90% of the originally issued have already been converted, redeemed or purchased and cancelled before 30 days prior to its maturity date.

The conversion option embedded in the CB4 meets the definition of equity instruments of the Company, and is therefore classified as equity and separated from the liability components of the convertible bonds. The other embedded derivatives are not separated from host debt because their economic characteristic and risks are closely related to those of the host debt. The liability component is initially recognised at its fair value, net of transaction costs allocated to the liability component, and are subsequently measured at amortised cost. The residual amount (i.e. the excess of net proceeds over the amount allocated to the liability component) is assigned as the equity component (the conversion option) and is included in shareholders' equity.

On 23 July 2012, as a result of exercise of the Put Option by most of the bondholders, bonds with an aggregate principal amount of RMB439.9 million were redeemed and the current outstanding principal amount of the CB4 is RMB7 million.

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

16. Notes to the Consolidated Statement of Cash Flows

Reconciliation of profit before tax to net cash outflow from operating activities:

	For the six months ended 30 June	
	2012 (unaudited)	2011 (unaudited)
Profit for the period	469,182	297,094
Adjustments for:		
Depreciation of property, plant and equipment	81,399	87,530
Amortisation of prepaid land lease payments	2,558	5,246
Gain on disposal of property, plant and equipment	–	(383)
Share of profits of associates	(2,811)	(3,344)
Share of profits of joint-controlled entities	(351)	–
Fair value gain on investment properties	(75,700)	(95,753)
Fair value loss on investment properties under construction	–	5,773
Gain on disposal of a subsidiary	(226,121)	–
Fair value gain on derivative financial instruments	(246)	–
Management share option expense	1,701	3,310
Finance income	(14,554)	(54,573)
Finance cost	235,249	198,104
	470,306	443,004
Increase in restricted bank deposit	(22,589)	–
Decrease/(increase) in leasehold land	342,968	(811,105)
Increase in properties held or under development for sale	(755,121)	(341,556)
Increase in inventories	(4,384)	(48,877)
Decrease in amount due from associates	304	–
Decrease in investment property	–	44,513
Increase in prepayments and other current assets	(18,795)	(147,569)
Increase in other receivables	(35,057)	(102,649)
(Increase)/decrease in trade receivables	(5,464)	394,902
Increase/(decrease) in trade payables	494,925	(466,801)
Increase in other payables and accruals	103,654	227,472
Increase in amount due to a related party	36,660	–
Decrease in advance received from pre-sale of properties under development	(784,782)	(101,791)
Decrease in deferred income from sale of golf club membership	(9,898)	(10,138)
Increase/(decrease) in deferred income arising from construction of ancillary public facilities	10,473	(11,210)
Increase in current income tax payable	–	6,793
Decrease/(increase) in land development for sale	28,385	(349,262)
Cash used in operations	(148,415)	(1,274,274)

Note to the Financial Statements

(Amounts expressed in HK\$'000 unless otherwise stated)

17. Commitments

	30 June 2012 Unaudited	31 December 2011 Audited
Contracted, but not provided for		
Investment property under construction	9,890	9,962
Land development for sale	1,456,200	1,512,599
Properties held or under development for sale	625,057	2,485,241
Property, plant and equipment and leasehold land	1,887,138	1,607,050
	3,978,285	5,614,852
Authorised, but not contracted for		
Investment property under construction	191,261	192,323
Land development for sale	5,737,756	5,779,957
Properties held or under development for sale	1,197,742	1,641,516
Property, plant and equipment and leasehold land	3,246,624	3,445,562
	10,373,383	11,059,358
	14,351,668	16,674,210

18. Subsequent Event

In addition to the subsequent events disclosed elsewhere in the interim condensed consolidated financial statements, the Group had the following subsequent event:

On 20 June 2012, CNTD proposed to place up to 585,000,000 new shares at a price of HK\$0.35 per share. The Placing was completed on 13 July 2012, and the Company's interest in CNTD had been diluted from approximately 68.07% to approximately 59.20%.

19. Approval of the Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 31 August 2012.

Management Discussion and Analysis

Financial Review

During the period under review, the Group recorded a net revenue of approximately HK\$1,992 million (2011: HK\$2,383 million), a decrease of approximately 16% compared with that of the corresponding period of last year. The decrease in net revenue was mainly due to the decrease in property sales which is expected to increase for the second half of the year. Profit attributable to owners of the parent amounted to approximately HK\$229 million (2011: approximately HK\$149 million), an increase of approximately 54% compared with that of the corresponding period of last year.

Liquidity and Financial Resources

As at 30 June 2012, cash and bank balances amounted to approximately HK\$3,083 million (31 December 2011: approximately HK\$2,521 million). Working capital (net current assets) of the Group as at 30 June 2012 amounted to approximately HK\$12,534 million (31 December 2011: approximately HK\$13,986 million), a decrease by approximately 10.4%. Current ratio was at 1.62x (31 December 2011: 1.82x).

As at 30 June 2012, the gearing ratio, being the Group's net borrowings (total borrowings minus cash and bank balance) to total capital (equity plus net borrowings), was 48% (31 December 2011: 49%).

Charges on Assets and Contingent Liabilities

As at 30 June 2012, bank and other borrowings of approximately HK\$14,140 million (31 December 2011: approximately HK\$13,705 million) were secured by mortgage of the Group's leasehold land, investment properties, property, plant and equipment and properties held or under development for sale, or by pledge of equity interest in subsidiaries, bank deposits and future property pre-sale proceeds.

Various subsidiaries of the Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's properties. Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by any of the purchasers, the relevant subsidiary is responsible for repaying the outstanding mortgage loan together with accrued interest and penalty owed by the defaulted purchaser to the bank. The subsidiary is then entitled to take over the legal title of the mortgaged property. The guarantee periods commence from the drawdown dates of the respective mortgage loans and end when the title certificates of the related mortgaged properties have been available and passed onto the relevant banks for completion of the mortgage registration procedures.

Management Discussion and Analysis

Business Review

In 2012, the state government has not relaxed its stringent control policies on housing. Under such circumstances, purchase restrictions and credit controls have been strictly enforced throughout the state in 2012. As a result, real estate prices and transaction volume have softened to varying degrees in different localities, and the real estate market has gradually become more rational and stable. Amidst changing macro-economic and real estate market conditions, the Group remains calm, unwaveringly upholding its “down to earth” corporate culture and its ethos of pursuing a stable and steady development, and at the same time expediently adjusts its development strategies to cope with the changing market conditions and rejuvenates itself to ensure a steady and sustainable growth of our business.

Real Estate Development

Progress in Sales

In the first half of 2012, the Group’s major projects up for sale included Cedar Villa Original, Jiaxing Project, Haikou Bund Centre, Shenyang Albany and Central-Ring Centre, Lake Malaren, Lake Malaren Silicon Valley and Chengdu Albany Oasis Garden. From January to June 2012, contract sales amounted to approximately RMB749.81 million, with an area totaling 55,098m². In which:

Cedar Villa Original

The Cedar Villa Original rests on Lake Malaren, Luodian Nordic New Town, Baoshan District, Shanghai. It boasts the benefits of its proximity to Lake Malaren and high-end facilities including a golf course, featuring a golden Tuscan style of authentic Italian origin. The Land for Cedar Villa Original was obtained in April 2009, and pre-sale commenced after only twelve months, i.e. in May of 2010, and enjoyed a favorable market response. A total of 80 units were sold in the first half of 2012, with a total area of 9,004m², yielding revenue of RMB173.85 million (an average of RMB19,307 per m²).

Management Discussion and Analysis

Jiaxing Project

The Jiaxing Project resides in Nanhu District, Jiaxing City, Zhejiang Province. Being another high-end product of SRE Group, the project builds quality, exquisite and luxury residential estates. Pre-sale commenced in November of 2011 and a total of 34 villas were sold in the first half of 2012, with a total area of 10,296m², yielding revenue of RMB142.90 million (an average of RMB13,880 per m²).

Haikou Bund Centre

In 2010 and in the first half of 2011, Hainan's real estate market first witnessed vigorous sales, triggered by the central government's policy of positioning the province as an International Tourism Island, then the subsequent cooling off as a result of the strict macro-control measures by both the central and local governments. The Haikou Bund Centre project managed to adjust its strategies proactively, aptly and swiftly, selling 12 residential units of the Bund Centre (phase-1) from January to June 2012, with a total area of 2,176m², for RMB33.74 million (an average of RMB15,508 per m²).

Shenyang Albany

Shenyang Albany was first featured in the Spring Housing Fair of Shenyang held on 26 March 2010, with the sales office opened on 9 April and pre-sale for phase-1 of the project commenced on 29 May 2010. In the first half of 2012, a total of 50 units with a total area of 4,852m² were sold for RMB41.02 million (averaging RMB8,454 per m²).

Central-Ring Centre

As a landmark of the Shanghai Central Ring business district, the Central-Ring Centre, with all qualities of Grade 5A office buildings and well equipped with all sorts of facilities, has attracted an increasing number of companies. From January to June 2012, a total of 9 units measuring a total area of 1,532 m² were sold for RMB40.78 million (averaging RMB26,479 per m²).

Management Discussion and Analysis

Lake Malaren UHO

Lake Malaren UHO rests in Luodian New Town, Baoshan District, Shanghai. With the involvement of international renowned designers, the project aims at projecting an innovative image of being trendy, high-tech and a self-orientated social network, and protracting itself as a post-modern, simple-style but fashionable landmark. Pre-sale commenced in November of 2011 and a total of 161 villas were sold in the first half of 2012, measuring a total area of 9,649m², yielding revenue of RMB130.96 million (an average of RMB13,573 per m²).

Lake Malaren Silicon Valley

Lake Malaren Silicon Valley resides in Luodian New Town, Baoshan District, Shanghai. Leveraging on its experience over the past decade, SRE Group is the first to build mansions featuring five-star hotel management services right in the middle of the greens of a golf course, taking full advantages of the 36-hole golf course, the golf club, the five-star hotel and each being an exquisite individual house. Contract sale commenced in December of 2011 and a total of 4 villas were sold in the first half of 2012, measuring a total area of 1,651m², yielding revenue of RMB77.64 million (an average of RMB47,016 per m²).

Chengdu Albany Oasis Garden

Chengdu Albany Oasis Garden resides in Sanguan Village of Hongguang Town in the Pi County of Chengdu. The site of the project is located in an area designated only for noble residences under the zoning plan of the municipal government of Chengdu. Pre-sale commenced in December of 2011 and a total of 111 units were sold in the first half of 2012, measuring a total area of 10,199m², yielding revenue of RMB52.37 million (an average of RMB5,135 per m²).

Management Discussion and Analysis

Progress of Construction

Adhering to development plans and construction timelines delineated at the beginning of 2012, the Group and its subsidiary companies have been carrying out construction works in an orderly and standardized manner, while making every effort to uphold our high standard of quality. Major projects under construction:

Cedar Villa Original

Construction of Cedar Villa Original was divided into 2 tenders. Construction under Tender II had been completed and flats had been handed over to the buyers accordingly in December 2011, while that of Tender I had been completed in May 2012.

Wuxi Jiangnan Rich Gate

As of the end of June 2012, 12 villas with floor area of 3524.07 m² have been completed and handed over to the buyers. Generally speaking, the construction and the ancillary and greening work of the project have all been completed. Decoration of the sold villas had been fully completed while the interior decoration of the unsold villas was about 60% completed.

Central-Ring Centre

Construction work of Block 6 of The Central-Ring Centre has been formally commenced on 4 March 2011. As of the end of June 2012, the structure of the building has been topped out and has been satisfactorily examined. Construction of the project is expected to be entirely completed in April 2013.

Jiaxing Project

As of the end of June 2012, civil construction and basic decoration works of the Parcel 5 were 90% completed. The installation of the protective cover for the under-floor heating system was 60% completed, the installation of roof tile was 90% completed. The main structural work of Villa 1 to Villa 26 within Parcel 1 was completed. As for Villa 13 and 23, works in relation to heating, plastering of interior and external walls, roof, exterior walls and fine decoration were completed and opened to public.

Management Discussion and Analysis

Shenyang Yosemite Oasis Community

As of the end of June 2012, the construction of the west parcel of the Phase I of Shenyang Yosemite Oasis Community had been entirely completed and sold units had already been handed over to buyers. The east parcel of Phase I is divided into 2 tenders, namely Jinling and Shuangxing. As for Jinling, both interior and exterior decoration were still underway and construction work was about 85% completed, it is expected that the houses will be ready for use in September 2012. As for Shuangxing, structural works have been basically completed and the houses are expected to be handed over to buyers in September 2014.

Progress in Relocation

Albany Oasis Garden

Relocation for phase III of Albany Oasis Garden is underway. As at the end of June 2012, 2,211 relocation contracts of phase III were signed, with 235 households remaining, and relocation was about 90% completed.

Huangpu Bairun

As of the end of June 2012, Bairun Huangpu Project has signed 169 relocation contracts, with 69 households remaining, and relocation was about 71% completed.

Shenyang Albany

As of the end of June 2012, Shenyang Albany has signed 1,329 relocation contracts with different households, with 196 households remaining, and relocation was about 87% completed.

Commercial Properties

During the first half of 2012, to cope with changes in market conditions and opportunities arising, we continued to enhance management and operation of our commercial properties, adapt our business strategies for such changes, and leverage on our brand name advantages and management capabilities. As we continued to accumulate knowledges through experiences, we were able to gradually improve our operating results. Details include the following:

Shops at Shanghai Rich Gate

Shanghai Rich Gate Shops achieved full occupancy for the first time at about the end of 2009 to the beginning of 2010. Meanwhile, we emphatically continue to build our “Rich Gate” brand. By upholding targets of well servicing our tenants, displaying and selling only premium quality products and promoting a culture for classic things, the Rich Gate Shops will contribute to the cause, and the Rich Gate Shops and the “Rich Gate” brand will forcefully complement each other, seamlessly integrating quality community, quality properties and quality commercial tastes. From January to June 2012, rental income totaled RMB29.75 million.

Shanghai Pullman Skyway Hotel

In 2011, capitalizing on the good opportunities of Expo, Shanghai Pullman Skyway Hotel improved its management, enhanced quality of its services and effectively controlled costs. For the first six months of 2012, the hotel recorded revenue of RMB71.95 million, comprising room revenue of RMB35.75 million and revenue from food and beverages of RMB33.25 million. Gross profit amounted to approximately RMB18.38 million and the occupancy rate was about 66%.

Shenyang Rich Gate Shopping Mall

Shenyang Rich Gate Shopping Mall combines a wide range of functions, such as shopping, fine food, leisure, entertainment, culture, sports & recreation and services. During the first half of 2012, the Mall adjusted and rationalized its mode of operation and rent structure as well as upgraded the shop exteriors. As of the end of June 2012, a total area of approximately 90,421m² were leased, accounting for 80% of the rentable area, and rental income totaled RMB27.67 million.

Management Discussion and Analysis

Central-Ring Centre

During the first half of 2012, Central-Ring Centre doubled its efforts to lure leasees. Currently, commercial area of 30,000m² as well as an underground parking garage of 57,000m² are for lease. For the six months till the end of June 2012, rental income totalled RMB15.93 million, RMB14.11 million of which was lease income while parking fee income totalled RMB1.82 million.

Capital Market activities

On 30 April 2012, the Group announced the issuance of Rights Shares of HK\$0.10 each on the basis of one Rights Share for every seven Shares held by the Qualifying Shareholders on the Record Date at HK\$0.30 per Rights Share. The Rights Issue was completed on 12 June 2012 and HK\$212 million was raised.

On 20 June 2012, CNTD proposed to place up to 585,000,000 new shares at a price of HK\$0.35 per share. Upon the completion of the Placing on 13 July 2012, CNTD remains as a subsidiary of the Company and the Company's interest in CNTD has been diluted from approximately 68.07% to approximately 59.20%.

Major transaction

On 18 May 2012, Golden Bright Resources Limited, a wholly-owned subsidiary of the Group, and Lotus Holding Company Limited entered into the Sale and Purchase Agreement. Pursuant to the Agreement, Golden Bright Resources Limited had to sell the entire share capital of its wholly-owned subsidiary, Go High Investments Limited (the owner of the Shanghai Richgate shops). The transaction was completed on 28 June 2012.

Business Outlook

In 2012, the economy of China had shown a declining trend and the growth of GDP had dropped below the threshold of 8%, which was falling short of the previous expectation. As such, preliminary and micro adjustments made to the macro-control policies over the real estate sector as well as the housing policies in various regions had been intensified yet the purchase restrictions and differentiation measures continued to be implemented. The central government remained intransigent about its stringent control over housing and the general direction of the control policies on real estate sector remained unchanged.

Management Discussion and Analysis

As for financial and monetary policies, the Central Bank lowered the required reserve ratio two times in the first half of this year, it also for the first time over the past 3 years lowered the interest rate. Relaxation of micro-control over monetary measures would deepen. However, as the Central Bank maintained tight credit control, it was still difficult for real estate enterprises to have access to capital. Although multi-channel financing above-mentioned was continuously promoted, the actual effect would be limited in view of the constraint.

According to the statistics published by the China National Statistics Bureau, total investment in real estate development in the first half of 2012 amounted to RMB3.0610 trillion, an increase of 16.6% over the same period last year. Out of this total amount, investment in residential building development accounted for RMB2.0879 trillion, an increase of 12% over the same period of last year. Due to the crushing pressure from the control policies, the growth in real estate investment was substantially eased. During the same period, the national growth rates of both sales of commodity housing and the number of start-up projects was in the negative zone. Encumbered by the purchase restrictions, both sales volume and prices of real estate decreased and the market manifested a declining trend.

Under such a backdrop of further tightening of the macro-control policies over the real estate sector, we will proactively and prudently explore new financing channels in order to source the needed capital for our future development. In addition, we will continue to optimise the operation and management of commercial properties and office buildings held by the Group, and increase our investment in the development projects in tier two and tier three cities so as to ensure a stable cash inflow, which we believe is conducive to a sustainable and sound development of the Group.

Management Discussion and Analysis

Directors' and Chief Executives' Interests in Equity or Debt Securities

As at 30 June 2012, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be made known to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be made known to the Company and Stock Exchange; or (iv) which were required to be disclosed in this circular pursuant to the requirements of the Takeovers Code, were as follows:

(i) Long position in Shares of the Company

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of shareholding
Shi Jian	13,006,991	2,324 (Note 1)	3,128,434,628 (Note 2)	3,141,443,943	55.46%
Li Yao Min	5,172,324	–	–	5,172,324	0.09%
Yu Hai Sheng	6,236,091	–	–	6,236,091	0.11%
Zhuo Fumin	–	160,000 (Note 3)	–	160,000	0.003%

Notes:

1. These Shares were held by Md. Si Xiao Dong, the spouse of Mr. Shi Jian.
2. These 3,128,434,628 Shares were held by SRE Investment Holding Limited ("SRE Investment"). As Mr. Shi Jian and his spouse, Mr. Si Xiao Dong together beneficially own 63% of the issued share capital of SRE Investment, Mr. Shi was deemed to be interested in these 3,128,434,628 Shares.
3. These Shares were held by Md. He Pei Pei, the spouse of Mr. Zhuo Fumin.

Management Discussion and Analysis

(ii) Long position in shares of CNTD

Name of Director	Personal interests	Family interests	Corporate interests	Total	Approximate percentage of shareholding
Shi Jian	–	–	2,658,781,817 (Note)	2,658,781,817	68.07%
Li Yao Min	4,147,500	–	–	4,147,500	0.11%

Note: These 2,658,781,817 shares were held by Sinopower Investment Limited which is a wholly-owned subsidiary of the Company. SRE Investment is the controlling shareholder of the Company interested in more than 30% of the issued share capital of the Company. As Mr. Shi Jian and his spouse, Md. Si Xiao Dong together beneficially own 63% of the issued share capital of SRE Investment, Mr. Shi is therefore deemed be interested in these 2,658,781,817 shares under the SFO.

(iii) Long position in options granted pursuant to the Management Grant of CNTD

Name of Director	No. of shares awarded but not yet exercisable under the Management Grant of CNTD	Approximate percentage of shareholding of CNTD
Li Yao Min	1,777,500	0.05%

Directors' Interest in Contracts

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Company's directors had a material interest, either directly or indirectly, subsisted at the end of the period or at any time during the period.

Management Discussion and Analysis

Directors' Rights to Acquire Shares

As at 30 June 2012, none of the directors had been granted any options or exercised any options of the Company.

Saved as disclosed in the section "Share option scheme" below, at no time during the period was the Company or its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Substantial Shareholders' Interests

As at 30 June 2012, so far as is known to any Director or chief executives of the Company, the following persons, other than a Director or chief executives of the Company, had interests of the Company or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under the Section 336 of Part XV of the SFO:

Long positions in Shares

Name of Shareholder	Capacity	Number of issued ordinary shares held (Note 1)	Approximate percentage of shareholding
Si Xiao Dong	Beneficial owner, spouse and corporate interest	3,141,443,943 (L) (Note 2)	55.46%
SRE Investment	Beneficial owner	3,128,434,628 (L)	55.23%

Notes:

- (1) "L" represents long positions in Shares and "S" represents short positions in Shares.
- (2) These Shares comprised 2,324 Shares held by Md. Si Xiao Dong, 13,006,991 Shares held by her spouse – Mr. Shi Jian and 3,128,434,628 Shares which SRE Investment was interested in.

Management Discussion and Analysis

Save as disclosed above, none of the Directors nor the chief executive of the Company was aware of any other person (other than a Director or chief executive of the Company) or corporation who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO.

Employees

As at 30 June 2012, the Group had retained 3,478 employees in Hong Kong and the PRC. Total staff costs of the Group excluding directors' remuneration for the period under review amounted to approximately HK\$103.5 million. Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of individual employee.

Share Option Scheme

The Scheme expired on 22 May 2012. No share options of the Company have been granted, exercised, cancelled or lapsed on or before this date.

CNTD's Management Stock Option Plan ("Management grant")

No stock options of CNTD have been exercised, cancelled or lapsed during the six months ended 30 June 2012.

Purchase, Sale or Redemption of the Company's Listed Shares

On 30 April 2012, the Group announced the issuance of Rights Shares of HK\$0.10 each on the basis of one Rights Share for every seven Shares held by the Qualifying Shareholders on the Record Date at HK\$0.30 per Rights Share. The Rights Issue was completed on 12 June 2012 and HK\$212 million was raised.

On 20 June 2012, CNTD proposed to place up to 585,000,000 new shares at a price of HK\$0.35 per share. Upon the completion of the Placing on 13 July 2012, CNTD remains as a subsidiary of the Company and the Company's interest in CNTD has been diluted from approximately 68.07% to approximately 59.20%.

Other than the above, neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2012.

Management Discussion and Analysis

Change of Information of Directors

On 29 May 2012, Mr. E. Hock Yap retired as an Independent Non-executive Director of the Company and ceased to be the chairman of the Remuneration Committee and a member of the Audit Committee.

Following Mr. E. Hock Yap's retirement, the Company subsequently appointed Mr. Chan, Charles Sheung Wai as an Independent Non-executive Director and the chairman of the Remuneration Committee and a member of the Audit Committee with effect from 10 July 2012.

Name of Director	Date of appointment letter	Term	Fixed annual director's fee	Termination notice period/ payment in lieu of notice
Chau, Charles Sheung Wai	5 July 2012	10/07/2012 to 30/06/2014	HK\$330,000	No less than 1 month

Save as disclosed herein, the Board is not aware of any other matters relating to the appointment that should be disclosed pursuant to Rules 13.51(2)(a) to (x) of the HKEx Listing Rules or any other matters that need to be brought to the attention of the shareholders of the Company and the HKEx.

The remuneration of Mr. Shi Jian, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong and Mr. Shi Pin Ren has been deducted by a lump sum of HK\$500,000, HK\$500,000, HK\$300,000 and HK\$500,000 respectively, with effect from January 2012 for 12 months. This decision was determined with reference to the Company's performance and profitability, as well as the remuneration benchmark in the industry of the prevailing market conditions.

Directors' Compliance with the Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Specific enquiry has been made for all Directors, who have confirmed that they complied with required standard set out in the Model Code.

Audit Committee

The audit committee of the Company (the “**Audit Committee**”) has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and reporting matters. The Group’s unaudited consolidated financial statements for the six months ended 30 June 2012 have been reviewed by the Audit Committee.

Nomination Committee

The Company has established a nomination committee (the “Nomination Committee”) on 27 March 2012. The Nomination Committee shall consist of not less than three members and a majority of the Members shall be independent non-executive directors (“INEDs”, each an “INED”) of the Company. The Chairman of the Nomination Committee shall be appointed by the Board and shall be the Chairman of the Board or an INED. The members of the Nomination Committee shall comprise such directors of the Company appointed by the Board. The Board has appointed Mr. Shi Jian, Mr. Yuan Pu and Mr. Zhuo Fu Min as members of the Nomination Committee. Mr. Shi Jian has been appointed as the Chairman of the Nomination Committee.

The major duties of the Nomination Committee include:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company’s corporate strategy;
- to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on selection of individual nominated for directorships;
- to assess the independence of the independent non-executive directors;
- to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive; and
- to determine the policy for nomination of directors.

Management Discussion and Analysis

Corporate Governance

In April 2005 the Company adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Throughout the period, the Company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 except for Code provisions A.6.7 and E.1.2. Code Provision A.6.7 stipulates Independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of Shareholders. Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting. He should also invite the Chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. Mr. Shi Jian, the Chairman of the Board of Directors, and Mr. E. Hock Yap, the independent non-executive director and the Chairman of the Remuneration Committee, did not attend the annual general meeting for the year 2012 due to other business commitment.

In addition, due to Mr. E. Hock Yap's retirement as an independent non-executive director on 29 May 2012, the Company temporarily failed to comply with (i) Rule 3.10(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), which require that at least one of the INEDs has appropriate professional qualifications or accounting or related financial management expertise; (ii) Rule 3.21 of the Listing Rules, which requires that at least one of the members of the Audit Committee of the Board who is an INED has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules and the majority of the Audit Committee of the Board to be INEDs; and (iii) Rule 3.25 of the Listing Rules, which requires the Remuneration Committee of the Board to be chaired by an INED and to comprise a majority of INEDs. The Company had subsequently appointed Mr. Chan, Charles Sheung Wai as an independent non-executive director, the chairman of the Remuneration Committee and the member of the Audit Committee on 10 July 2012, and hence complied with the Listing Rules on the date.

Disclosure of Information on the Website of the Stock Exchange

The interim report for 2012 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the Stock Exchange website (<http://www.hkex.com.hk>) in due course.

On behalf of the Board
SRE Group Limited
Shi Jian
Chairman

Hong Kong, China, 31 August 2012

Details of projects under development:

Project	Location	Land Use	GFA (sqm)	Expected	Completion	Group's
				Date of	Rate of	Equity
				Completion	Construction	Interest
						(%)
The Bund Center Haikou	No.18 Taihua Road, Longhua District, Haikou City, Hainan Province, The PRC	Residential Phase I	83,978	2012	100%	79%
		Hotel	45,458	2013	50%	79%
		Commercial Phase I	2,051	2011	100%	79%
		Residential Phase II	220,400	2014	0%	79%
		Commercial Phase II	19,540	2014	0%	79%
		Residential Phase III	197,640	2016	0%	79%
		Commercial Phase III	20,000	2016	0%	79%
		Residential Phase IV	100,000	2018	0%	79%
		Commercial Phase IV	30,250	2018	0%	79%
Minhang Project	No. 3888, Kunyang Northern Road, Maqiao Town, Minhang District, Shanghai, The PRC	Residential	103,164	2014	0%	27.70%
		Office & Hotel Phase IV	184,030	2018	0%	79%
Albany Oasis Garden	No. 699, Zhong Xing Road, Zhabei District, Shanghai, The PRC	Residential Phase III	158,800	2015	0%	100%
		Residential Phase IV	45,000	2018	0%	100%
		Commercials	40,000	2018	0%	100%
		Office	100,500	2018	0%	100%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shangha, The PRC	Office	42,000	2013	50%	95.79%

Property Details

Project	Location	Land Use	GFA (sqm)	Expected	Completion	Group's
				Date of	Rate of	Equity
				Completion	Construction	Interest
						(%)
Cedar Villa Original	Lane 88, Mei Fung Road, Baoshan District, Shanghai, The PRC	Residential	112,745	2012	95%	98.75%
Shengyang Albany	South Heping Road, Heping District, Shenyang City, Liaoning Province, The PRC	Residential Phase I	123,829	2011	100%	97.50%
		Commercial Phase I	4,429	2011	100%	97.50%
		Residential Phase II	119,820	2015	0%	97.50%
		Commercial Phase II	2,281	2015	0%	97.50%
		Residential Phase III	50,900	2015	0%	97.50%
		Residential Phase IV	16,618	2017	0%	97.50%
		Residential Phase V	160,940	2016	0%	97.50%
		Office/Commercial	465,354	2017	0%	97.50%
Jiang Nan Rich Gate Wuxi	Within Wuxi Hongshan New Town of CNTD	Residential	50,544	2012	85%	98.75%
Pudong Project	Yongfa Road, Pudong New District, Shanghai, The PRC	Residential	48,288	yet to be decided	0%	98.75%
Bairun Project	Lane 99, Baotun Road, Huangpu District, Shanghai, The PRC	Residential	28,645	2014	0%	50.36%
		Commercials	5,000	2014	0%	50.36%
		Facilities	7,000	2014	0%	50.36%

Property Details

Project	Location	Land Use	GFA (sqm)	Expected	Completion	Group's
				Date of	Rate of	Equity
				Completion	Construction	Interest
						(%)
Rich Gate I (Qinhai Oasis Garden)	Daxing Road, Huangpu District, Shanghai, The PRC	Residential Phase I	70,693	yet to be decided	0%	100%
		Residential Phase II	30,297	yet to be decided	0%	100%
		Commercial Phase I	41,939	yet to be decided	0%	100%
		Commercial Phase II	10,800	yet to be decided	0%	100%
Shenyang Yosemite Oasis Community	the town of Lee Sang Lane, Dongling District, Shenyang City, Liaoning Province, The PRC	Town House Phase I	162,386	2013	80%	98.95%
		Town House Phase II	71,037	2010	100%	98.95%
		Residential Phase III	203,960	2014	0%	98.95%
Jiaxing Project	No.1, Linghu Road, Nanhu District, Jiaxing City, Zhejiang Province, The PRC	Residential and Commercial	97,905	2013	70%	98.96%
		Residential and Commercial	137,516	2014	40%	98.96%
Lake Malaren UHO	Luodian New Town, Baoshan District, Shanghai, the PRC	Residential and Commercial	39,317	2013	76%	44.70%
Lake Malaren Silicon Valley	Luodian New Town, Baoshan District, Shanghai, the PRC	Commercial Phase	97,000	2015	39%	44.70%
Jiangnan Richgate II	Within Wuxi Hongshan New Town of CNTD	Residential	83,055	2014	7%	55.38%
Chengdu Albany Oasis Garden	Sanguan Village, Hongguang Town in the Pi county of Chengdu	Residential	215,202	2013	20%	44.70%

Property Details

Details of completed investment properties:

Project	Location	Land Use	GFA (sqm)	Group's Equity Interest (%)
Shenyang Rich Gate	No.118, Harbin Road, Shenhe District, Shenyang City, Liaoning Province, The PRC	Commercial	245,252	60%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shanghai, The PRC	Retail	32,143	95.79%
Oasis Central Ring Center	Lane 1628, Jinshajiang Road, Putuo District, Shanghai, The PRC	Car Park	57,045	95.79%
Unit 2605, 2606, 26(3A), 2803, 2806 and 28(3A) of Universal Mansion	No. 172 Yuyuan Road, Jing'An District, Shanghai, The PRC	Office	732	98%
Scandinavia Street, Shanghai, PRC	Luodian New Town, Baoshan District, Shanghai, the PRC	Retail	72,494	44.70%
Retail Street in Wuxi Project	Xinhong Road, Hongshan New Town, New District, Wuxi, Jiangsu Province, the PRC	Retail	12,162	55.38%
Shanghai supermarket shopping mall	Luodian New Town, Baoshan District, Shanghai, the PRC	Supermarket	21,575	44.70%

Details of hotels:

Project	Location	Land Use	GFA (sqm)	Group's Equity Interest (%)
Shanghai Skyway Pullman Hotel	No.15 Dapu Road, Luwan District, Shanghai, The PRC	Hotel	101,047	56%
Crowne Plaza Lake Malaren Shanghai Hotel	Luodian New Town, Baoshan District, Shanghai, the PRC	Hotel	38,240	44.70%

Details of the Land infrastructure under development for sale:

Project	Location	Site area (sqkm)	Land Available for sale (sqm)	Completion Rate of Construction	Group's Equity Interest (%)
Shanghai Luodian New Town	Located at Baoshan District, connected to downtown Shanghai by metroline #7	6.8	866,082	96.28%	44.70%
Wuxi Hongshan New Town	Located in Wuxi New District and adjacent to the high-tech industrial park, close proximity to the Wuxi city centre and Wuxi Airport	8.68	3,170,000	61.59%	55.38%
Shenyang Lixiang New Town	Located at Dongling District, close proximity to Shenyang city centre and adjacent to Shenyang Taoxian International Airport	20	11,840,000	45.42%	55.38%

Corporate Information

Board of Directors

Shi Jian (*Chairman*)

Li Yao Min

Yu Hai Sheng (*Co-Chairman & Chief Executive Officer*)

Jiang Xu Dong (*Vice-Chairman & Chief Operation Officer*)

Shi Pin Ren

Zhang Hong Fei

Shi Li Zhou

Cheung Wing Yui*

Jin Bing Rong*

Jiang Xie Fu**

E. Hock Yap** (*Resigned on 29 May 2012*)

Zhuo Fumin**

Yuan Pu**

Chan, Charles Sheung Wai** (*Appointed on 10 July 2012*)

* Non-executive Directors

** Independent Non-executive Directors

Authorized Representatives

Shi Jian

Li Yao Min

Company Secretary

Hui Sze Wai, Sylvie

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Office Tower, Convention Plaza,
1 Harbour Road
Wanchai, Hong Kong

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Bermuda

Principal Registrar and Transfer Office

Butterfield Corporate Service Ltd
Rose Bank Centre
11 Bermudiana Road
Pembroke, Bermuda

Hong Kong Branch Registrar and Transfer Office

Tricor Tengis Limited
Share Registration
26/F, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

Legal Adviser

Woo, Kwan, Lee & Lo

Auditor

Ernst & Young

Principal Bankers

Hong Kong: The Agricultural Bank of China
CITIC Bank International
Limited

PRC: The Agricultural Bank of China
The Industrial and Commercial
Bank of China
The Bank of China
Shanghai Pudong Development
Bank
China Minsheng Bank

Stock Code

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