



SRE GROUP LIMITED

上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

UNAUDITED INTERIM RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2008

GROUP FINANCIAL HIGHLIGHTS

| | For the six months ended 30 June 2008 |
|---|--|
| Revenue (HK\$'000) | 2,655,800 |
| Gross Profit (HK\$'000) | 765,680 |
| Gross Profit Margin (%) | 29% |
| Net Profit attributable to equity holders of the Company (HK\$'000) (including HK\$1,487 million, being the Group's interest of fair value gain on investment properties) | 1,819,314 |
| Basic earnings per share (HK cents) | 66.50 |
| Dividend per share-Interim (HK\$) | – |

INTERIM RESULTS

The Board of Directors (“the Board”) of SRE Group Limited is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (“the Group”) for the six months ended 30 June 2008, together with comparative figures for the previous corresponding period in 2007. The unaudited interim financial statements for the six months ended 30 June 2008 have been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

(Amounts expressed in HK\$'000, except for earnings per share)

| | Note | 2008 (Unaudited) | 2007 (Unaudited) |
|--|------|-------------------------|-----------------------|
| Revenue | 2 | 2,655,800 | 834,407 |
| Cost of sales | | <u>(1,890,120)</u> | <u>(489,020)</u> |
| Gross profit | | 765,680 | 345,387 |
| Selling and marketing costs | | (52,071) | (34,882) |
| Administrative expenses | | (133,350) | (64,762) |
| Other gains – net | 3 | <u>4,444,109</u> | <u>627,572</u> |
| Operating profit | | 5,024,368 | 873,315 |
| Finance costs – net | | (123,388) | (50,986) |
| Share of results of jointly-controlled entity and associates | | <u>8,742</u> | <u>18,897</u> |
| Profit before tax | | 4,909,722 | 841,226 |
| Tax | 4 | <u>(1,661,510)</u> | <u>(276,348)</u> |
| Profit for the period | | <u>3,248,212</u> | <u>564,878</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 1,819,314 | 522,304 |
| Minority interests | | <u>1,428,898</u> | <u>42,574</u> |
| | | <u>3,248,212</u> | <u>564,878</u> |
| Earnings per share attributable to ordinary equity holders of the parent (expressed in Hong Kong cents per share) | | | |
| – Basic | 5 | <u>66.5 cents</u> | <u>24.1 cents</u> |
| – Diluted | 5 | <u>65.5 cents</u> | <u>23.3 cents</u> |
| Interim Dividends | 6 | <u>–</u> | <u>–</u> |

CONDENSED CONSOLIDATED BALANCE SHEET*As at 30 June 2008**(Amounts expressed in HK\$'000 unless otherwise stated)*

| | | Group | |
|--|-------------|--------------------------|--------------------------|
| | <i>Note</i> | 30 Jun 2008 | 31 Dec 2007 |
| | | (Unaudited) | (Audited) |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 1,663,869 | 1,429,956 |
| Investment properties | | 7,311,419 | 1,842,375 |
| Prepaid land lease payments | | 884,512 | 1,108,527 |
| Properties under development for long-term investment | | 59,917 | 880,124 |
| Goodwill | | 449,815 | 422,627 |
| Interests in subsidiaries | | 1,058,653 | 972,668 |
| Deferred tax assets | | 29,559 | – |
| Other non-current assets | | 44,491 | 63,159 |
| | | <u>11,502,235</u> | <u>6,719,436</u> |
| Current assets | | | |
| Prepaid land lease payments | | 6,155,638 | 5,554,483 |
| Properties held or under development for sale | | 3,124,314 | 4,109,523 |
| Inventories | | 25,226 | 24,673 |
| Amount due from a jointly-controlled entity and associates | | 7,185 | 11,048 |
| Prepayments and other current assets | | 275,988 | 78,891 |
| Other receivables | | 712,379 | 1,106,464 |
| Accounts receivable | 7 | 11,711 | 54,817 |
| Prepaid income tax | | 50,479 | 23,837 |
| Cash and bank balances | | 1,772,759 | 1,939,359 |
| | | <u>12,135,679</u> | <u>12,903,095</u> |
| Total assets | | <u>23,637,914</u> | <u>19,622,531</u> |
| EQUITY | | | |
| Share capital and premium | | 3,956,327 | 3,956,327 |
| Other reserves | | 893,261 | 555,442 |
| Retained earnings | | 3,131,015 | 1,288,117 |
| | | <u>7,980,603</u> | <u>5,799,886</u> |
| Equity attributable to equity holders of the parent | | <u>7,980,603</u> | <u>5,799,886</u> |
| Minority interest | | <u>2,294,949</u> | <u>783,469</u> |
| Total equity | | <u>10,275,552</u> | <u>6,583,355</u> |

| | | Group | |
|--|-------------|--|--------------------------|
| | <i>Note</i> | 30 Jun 2008 (Unaudited) | 31 Dec 2007 (Audited) |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Interest-bearing bank and other borrowings | | 2,938,314 | 2,629,211 |
| Guaranteed notes | | 1,544,494 | 1,540,928 |
| Deferred tax liabilities | | 2,342,527 | 755,355 |
| | | <u>6,825,335</u> | <u>4,925,494</u> |
| Current liabilities | | | |
| Interest-bearing bank and other borrowings | | 1,157,979 | 1,164,570 |
| Convertible bonds-host debts | | 37,825 | 35,363 |
| Derivative financial liabilities | | 9,613 | 19,604 |
| Advances received from the pre-sale of properties under development | | 1,329,705 | 2,392,775 |
| Accounts payable | 8 | 1,093,534 | 1,596,202 |
| Other payables and accruals | | 1,917,359 | 2,072,911 |
| Current income tax liabilities | | 991,012 | 831,880 |
| Amount due to a jointly-controlled entity and associates | | – | 377 |
| | | <u>6,537,027</u> | <u>8,113,682</u> |
| Total liabilities | | <u>13,362,362</u> | <u>13,039,176</u> |
| Total equity and liabilities | | <u>23,637,914</u> | <u>19,622,531</u> |
| Net current assets/(liabilities) | | <u>5,598,652</u> | <u>4,789,413</u> |
| Total assets less current liabilities | | <u>17,100,887</u> | <u>11,508,849</u> |

Note to the Financial Statements

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

1. Basis of Preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Financial Reporting Standards.

2. Revenue

Turnover recognized during the period are as follows:

| | For the six months ended 30 June | |
|---|-------------------------------------|----------------|
| | 2008 | 2007 |
| Sales of properties held or under development | 2,685,037 | 825,248 |
| Revenue from construction of infrastructure for intelligent network and sale of network hardware and installation of intelligent home equipment | 30,463 | 25,935 |
| Revenue from property leasing | 13,219 | 13,782 |
| Revenue from hotel operations | 43,360 | 6,389 |
| Others | 22,690 | 2,592 |
| | <hr/> | <hr/> |
| | 2,794,769 | 873,946 |
| Less: Sales taxes (a) | (138,969) | (39,539) |
| | <hr/> | <hr/> |
| | 2,655,800 | 834,407 |

(a) Sales taxes

Sales taxes represent business tax ("BT") and surtaxes.

The Group is subject to business tax ("BT") at 5% on the revenue from the sale/pre-sale of properties and the installation of intelligent home network equipment and rental, and at 3% on the revenue from building of intelligent network infrastructure facilities (less payment to subcontractors from the construction of infrastructure for intelligent work). Some subsidiaries are subject to the following surtaxes:

- City development tax, a tax levied at 5% to 7% of BT or Value-Added Tax ("VAT");
- Education supplementary tax, a tax levied at 3% of BT or VAT.

3. Other Gains/(Losses)-net

| | For the six months ended 30 June | |
|---|-------------------------------------|----------------|
| | 2008 | 2007 |
| Fair value gain on investment properties (3a) | 4,321,385 | 635,273 |
| Gain from business combination | – | 32,337 |
| Loss on swap contracts | – | (87,851) |
| Exchange gain | 114,823 | 47,755 |
| Derivative financial instruments at fair value through profit or loss – fair value gain, net | 10,729 | – |
| Others | (2,828) | 58 |
| | <u>4,444,109</u> | <u>627,572</u> |

- (a) The Fair value gain on investment properties is mainly related to a shopping mall at the town area of Shenyang with fair value of approximately HK\$5,455 million of which the cost was HK\$1,029 million. As at 30 June 2008, the investment properties were revalued by BMI Appraisals Limited, an independent professionally qualified valuer.

4. Tax

| | For the six months ended 30 June | |
|---|-------------------------------------|----------------|
| | 2008 | 2007 |
| Current taxation | | |
| – Mainland China Enterprise income taxation | 59,371 | 5,480 |
| – Mainland China Land appreciation taxation | 114,218 | 38,320 |
| | <u>173,589</u> | <u>43,800</u> |
| Deferred taxation | | |
| – Mainland China Enterprise income taxation | 1,487,921 | 232,548 |
| | <u>1,487,921</u> | <u>232,548</u> |
| Total tax charge for the year | <u>1,661,510</u> | <u>276,348</u> |

- (a) Income tax expense

The Group conducts a significant portion of its business in the PRC and the applicable enterprise income tax (“EIT”) rate of its subsidiaries operating in the PRC is generally 25%.

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

The Company is exempted from taxation in Bermuda until 2016. There were also no Hong Kong profits tax liabilities, as the Group did not have any assessable profit in Hong Kong.

(b) Land appreciation tax (“LAT”)

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

For the pre-sale of properties under development, the tax authorities may impose LAT ahead of the completion of transaction and revenue recognition, generally based on 1% to 2% on advances received.

(c) Business tax (“BT”) and surtaxes

The Group is subject to business tax (“BT”) at 5% on the revenue from the sale/pre-sale of properties, installation of intelligent home equipment and property leasing, and at 3% on the revenue less payments to subcontractors from the construction of infrastructure for intelligent network. On top of BT, some subsidiaries are subject to the following surtaxes:

- City development tax, a tax levied at 5% to 7% of BT or Value-Added Tax (“VAT”);
- Education supplementary tax, a tax levied at 3% of BT or VAT.

(d) Value-added Tax (“VAT”)

The Group is subject to VAT, which is levied at a general rate of 17% on the gross turnover upon sale or purchase of goods. An input credit is available whereby VAT previously paid on purchases of raw materials, semi-finished products, etc., may be used to offset the VAT payable on sales to determine the net VAT payable. Sales and purchases are stated net of VAT in the consolidated profit and loss account.

(e) Withholding tax

Pursuant to the new tax law, a 10% withholding tax is levied on dividends declared to foreign investor from 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 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 earnings as at 31 December 2007 are exempted from withholding tax.

5. Earnings Per Share

The calculation of earnings per share was based on the consolidated net profit of HK\$1,819,314,142 (2007: HK\$522,304,406) and the weighted average number of 2,737,844,121 shares (2007: 2,168,042,993 shares) in issue during the period. The calculation of diluted earnings per share was based on the consolidated net profit of HK\$1,810,730,028 (2007: HK\$523,256,725) and the diluted weighted average number of 2,764,038,936 shares (2007: 2,249,421,989 shares) in issue during the period.

6. Dividend

The Board had resolved not to declare an interim dividend for the six months ended 30 June 2008 (2007: Nil).

7. Accounts Receivable

| | Group | |
|---------------------------------------|-------------------------|----------------------|
| | 30 June 2008 | 31 December 2007 |
| Accounts receivable | 23,348 | 65,751 |
| Less: Provision for doubtful accounts | <u>(11,637)</u> | <u>(10,934)</u> |
| | <u>11,711</u> | <u>54,817</u> |

An aging analysis of accounts receivable is set out below:

| | 30 June 2008 | 31 December 2007 |
|-------------------------|-------------------------|----------------------|
| Within 1 year | 11,708 | 53,238 |
| 1 – 2 years | 3 | 1,579 |
| Over 2 years – impaired | <u>11,637</u> | <u>10,934</u> |
| | <u>23,348</u> | <u>65,751</u> |

The carrying amounts of the Group's accounts receivables were denominated in RMB, and approximated their fair value. There is no concentration of credit-risk with respect to accounts receivables, as the Group has a large base of customers.

8. Accounts Payable

| | Group | |
|------------------|-------------------------|-------------------------|
| | 30 June 2008 | 31 December 2007 |
| Accounts payable | <u>1,093,534</u> | <u>1,596,202</u> |

An aging analysis of accounts payable as at the balance sheet date, is as follows:

| | 30 June 2008 | 31 December 2007 |
|---------------|-------------------------|-------------------------|
| Within 1 year | 1,092,323 | 1,341,902 |
| 1 – 2 years | 1,211 | 253,498 |
| Over 2 years | <u>–</u> | <u>802</u> |
| | <u>1,093,534</u> | <u>1,596,202</u> |

Accounts payable with aging of more than one year generally represent retention monies held by the Group in connection with various property projects. The carrying amounts of accounts payable approximated their fair value.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the period under review, the Group recorded a net turnover of approximately HK\$2,656 million (2007: HK\$834 million), an increase of approximately 218% compared with that of the corresponding period of last year. Profit attributable to equity holders of the Company amounted to approximately HK\$1,819 million (2007: approximately HK\$522 million), an increase of approximately 248% compared with that of the corresponding period of last year.

The increase in net revenue for the period was mainly due to the sharp increase in properties sold and delivered. The big increase in profit attributable to equity holders of the Company was mainly due to the net fair value gain on investment properties which amounted to approximately HK\$1,487 million (2007: approximately HK\$477 million).

Liquidity and Financial Resources

The Group's liquidity position remains sound. Cash and bank balances amounted to approximately HK\$1,773 million as at 30 June 2008 (31 December 2007: approximately HK\$1,939 million). Working capital (net current assets) of the Group as at 30 June 2008 amounted to approximately HK\$5,599 million (31 December 2007: approximately HK\$4,789 million), an increase of approximately 17%. Current ratio was at a healthy level of 1.86x (31 December 2007: 1.59x).

As at 30 June 2008, the total liabilities to shareholders equity decreased to 1.67x (2007: 2.25x). At the balance sheet date, the Group's gearing ratio is approximately 40% (2007: 52%), calculated on the basis of the Group's net borrowings (after deducting cash and bank balance of approximately HK\$1,773 million) over total capital (equity plus net borrowings).

Management is comfortable that existing financial resources will be sufficient for future expansion plans.

Charges on Assets and Contingent Liabilities

As at 30 June 2008, bank borrowings of approximately HK\$3,656 million (31 December 2007: approximately HK\$3,357 million) were secured by pledge of the Group's leasehold land, together with properties held under development for sale and construction-in-progress.

As at 30 June 2008, the Group had no contingent liabilities (31 December 2007: nil) in respect of guarantees to assist home buyers to obtain mortgage loans from banks and complete mortgage procedures, and no contingent liabilities (31 December 2007: nil) in respect of guarantees to assist any associated company to secure banking facilities.

Business Review

Recognized Sales

In the first half of 2008, the construction and delivery of Cedar Island Oasis Garden, Central-Ring Centre, Thousand Island Oasis Garden and Shenyang Rich Gate, all of which having recorded satisfactory pre-sale results in earlier times, were completed as scheduled, and hence contributed handsomely to the Group's income for the said period.

In the first six months of 2008, recognized sales in terms of total floor area were 220,000 m² and recognized sales income were HK\$2.7 billion. Breaking them down by projects, recognized sales in terms of total floor area and recognized sales income of Cedar Island Oasis Garden were 68,900 m² and HK\$756 million, recognized sales in terms of total floor area and recognized sales income of Central-Ring Centre were 37,800 m² and HK\$666 million, recognized sales in terms of total floor area and recognized sales income of Thousand Island Oasis Garden were 40,800 m² and HK\$555 million, and recognized sales in terms of total floor area and recognized sales income of Shenyang Rich Gate were 65,200 m² and HK\$536 million.

Sales Progress

The Group's projects under sales in 2008 include "Cedar Island Oasis Garden", "Central-Ring Centre", "Shanghai Rich Gate", "Jiang Nan Oasis Garden", "Thousand Island Oasis Garden" and "Shenyang Rich Gate".

During the past 6 months ended 30 Jun 2008, a total floor area of approximately 90,000 m² were sold, generating sales proceeds of approximately HK\$1.3 billion, with details as follows:

Cedar Island Oasis Garden

The sale of Cedar Island Oasis Garden commenced at the beginning of the year, slightly earlier than planned and had achieved a very good result. In addition, our new interior design for 2008 displayed in the May Real Estate Exhibition was well-received by buyers. As at 30 Jun 2008, a total of 330 units have been sold, 314 units of which are standard rooms and 16 units of which are luxury rooms, involving a total floor area of 54,000 m² with a total contracted value of approximately HK\$651 million.

Central-Ring Centre

The sale of two blocks of offices of Central-Ring Centre was launched last year and achieved a very good result in the first half of 2008. The two blocks of offices were basically sold out.

Shanghai Rich Gate

With its prime location and leading quality, Shanghai Rich Gate remains a landmark in Shanghai. Of the three units remaining unsold at the end of 2007, one was sold in the first half of 2008. The selling price was approximately HK\$32 million.

Jiang Nan Oasis Garden

During the first half of 2008, four units representing 40% of the remaining unsold units were sold at a total consideration of approximately HK\$112 million, representing 103% year-on-year growth in average selling price.

Thousand Island Oasis Garden

During the first half of 2008, two villas were sold with total contracted value of approximately HK\$18 million.

Shenyang Rich Gate

Owing to its prime location and excellent quality, the sales of Shenyang Rich Gate achieved a very good result. During the first half of 2008, a total floor area of approximately 19,000 m² have been sold, representing a total revenue of HK\$196 million. As of June 2008, 80% of the units of Shenyang Rich Gate have been sold.

Development Progress

Adherence to all technical and engineering requirements, observance of the respective time lines and high efficiency throughout the construction periods are of paramount importance and are the prerequisites for delivering high quality projects. Adhering to the plans set up for the development of each of the properties at the beginning of 2008, the Group and its fellow project companies have been doing their utmost to ensure that the engineering works are progressing orderly and systemically and that high quality standards have always been upheld. Major projects include:

Cedar Island Oasis Garden

Currently, the foundation work of in Phase III of the Cedar Island Oasis Garden, with gross floor area of 237,000 square meters, has fully commenced in line with the development schedules set at the beginning of the year.

Central-Ring Centre

The construction of the twin-tower office buildings has been completed and buyers have already taken delivery accordingly. As such, the construction of the project except for the hotel has fully completed. The to-be-constructed hotel has a gross floor area of approximately 44,000 square meters and is under the planning stage.

Albany Oasis Garden

The development and sale of Phase I of Albany Oasis Garden have achieved good results and the development of Phase II has commenced. The relocation of the last household in Phase II has been completed.

Jiangnan Oasis Garden

The interior design for the seven villas has been finalized and decoration works are currently underway. We strive to complete all such works and the construction of clubhouse before the end of 2008.

Thousand Island Oasis Garden

Out of the 184 villas sold, 168 have been delivered and the delivery rate is 91.3%. Construction and engineering works of the project have basically been completed.

Qinhai Oasis Garden

To ensure that the project will be executed smoothly in the future, the project company continued to arrange for the relocation of the inhabitants in the first half of 2008. By the end of July 2008, it has successfully relocated 553 households while 1,269 households are yet to be relocated, representing a relocation completion rate of 30.4%. In addition, one corporation has been relocated, accounting for 35% of the total area needed to be vacated but now being occupied by corporations.

Rich Gate Mansion

Located in Luodian New Town in Shanghai, the “Rich Gate Mansion” project has finalized its architectural design and all other preparation works prior to the commencement of construction are in good progress. Construction works of the project are due to commence in late August 2008 while construction of our selling office will be completed by the end of September. It is expected that the first pre-sale certificate will be obtained at the end of December and by then the construction of the show flats will be completed.

Rich Gate Sea View

The “Rich Gate Sea View” project located in the Jinshan Coastline in Shanghai has primarily completed the pre-development preparation works in the first half of 2008. It is expected that the design and the pre-construction works of the project will be completed in the second half of the year and construction will commence on 18 September 2008. It is expected the project will be available for sale before 1 August 2009.

Yosemite Oasis Community

The project is located in the Lixiang New Town of the Dongling District in Shenyang. It is the Group’s first golf townhouse project in the Northeast District and has attracted a lot of attention from the beginning. The overall planning and design of the project has adopted an elegant English architectural style with a mix of townhouses and low-density apartments. The development and construction of the 736 English villas, divided into separate units made up of four-aligned, six-aligned and eight-aligned joint houses, have just commenced.

Haikou Bund Centre

The land on which Haikou Bund Centre is to be built is newly-acquired by the Group in 2008. It is located in Xingangpian District at the north corner of Binhai Road in Haikou City of Hainan Province, a prime location at the waterfront and in the city center district. The infrastructure of the district is well-established and the environment is excellent. The land measures approximately 227,272 square meters and the plot ratio is about four times. The project will become a seaside luxurious international community in the future. It will be composed of high-class apartments, a seaside commercial, leisure and entertainment center, high star-graded hotels, Grade A office towers and a yacht club. The project is currently in its pre-construction design and preparation stage.

Operation of Commercial Property

The Group continued to strengthen the management and operation of commercial properties in the first half of 2008 and rental contribution from the commercial properties as a proportion of the overall business revenues of the Group have slightly increased. The operating results of various commercial properties have improved over the past one year, with details as follow:

Shops at Shanghai Rich Gate

As high-end shops adjacent to Shanghai’s Xintiandi, selling mainly luxurious goods, Rich-Gate shops achieved a satisfactory operating result in the first half of 2008, with an occupancy rate over 80% and an average rental of RMB28/day per square meter for the above-ground shops. As for the under-ground floor of 5,000 square meters, a lease agreement has just been sealed.

Skyway Landis Hotel

As a newly-opened hotel, Skyway Landis Hotel has made encouraging progress in the first half of 2008. The hotel is developing convention and exhibition business, as well as online bookings and is striving to reduce its operating cost. As at the end of June 2008, it has basically achieved breakeven. In the second half of this year, it will continue to uphold its standards of services, enhance its operating efficiency and will apply for the status as a five-star hotel when appropriate.

Central-Ring Centre Commercial Plaza

The total area of the commercial portion of Central-Ring Centre is approximately 30,000 square meters and the marketing campaign was launched as scheduled in the first half of this year. Currently 4,700 square meters have been leased while negotiations for the lease of approximately 15,000 square meters are underway. It is expected that the Commercial Plaza will soft open in October 2008 with total area in operation expected to reach 10,000 square meters which will hopefully increase to approximately 20,000 square meters by December this year. Some of the tenants have already moved in to renovate their shops while a number of potential tenants, mainly well-known merchants, are in serious negotiations with us.

Shengyang Rich Gate Shopping Mall

The project, located in the central urban district of Shenyang, is the flagship of the CBD Jinlang Project under planning in Shenyang. It is adjacent to the Metro Line No. 2 which is now under construction. The gross floor area of the project is 240,000 square meters and trial operation has just commenced. Tenants include well known international and local branches and labels in fashion, furniture, electrical appliances, food and beverage.

Lexington Shenyang Rich Gate Hotel

The Lexington Shenyang Rich Gate Hotel with over 600 rooms has commenced trial operation in July 2008.

Business Outlook

Steady economic growth in the PRC and Shanghai

The world economy continues to be unstable in 2008 and the PRC is facing challenges of a slowdown in economic growth and a staunch high inflation rate. However, amidst these internal and external adversities, the overall economy of the PRC still continue to maintain a stable note of fairly high growth geared towards the underlying direction of the macroeconomic measures imposed by the central government.

Preliminary data from the State Statistical Bureau shows GDP for the first half of 2008 was RMB13,061.9 billion, a growth of 10.4% compared with the corresponding period of last year. This was 1.8 percentage points lower than the growth rate of the first half of 2007. The tertiary industry recorded an output value of RMB5,140 billion, a growth of 10.5% compared with the corresponding period of last year, during which the growth rate was 1.6 percentage points higher.

Fixed assets investment is growing steadily at a relatively fast speed and the investment mix has improved. During the first half of the year, the fixed assets investment for the nation as a whole amounted to RMB6,840.2 billion, representing a growth of 26.3% compared with the same period of last year. This was 0.4 percentage point higher than the growth rate of the first half of 2007. Out of the total fixed assets investment, fixed assets investment in urban areas amounted to RMB5,843.6 billion, representing a growth of 26.8%, which was 0.1 percentage point higher than the growth rate of the corresponding period of the preceding year. Within such investment, investment in tertiary industries increased by 26.2%; investment in real estate development amounted to RMB1,319.6 billion, representing a growth rate of 33.5%, 5 percentage points higher than that of the corresponding period of 2007.

In the first half of the year, Shanghai's economy was generally stable albeit growing at a slower pace. Preliminary data shows Shanghai's GDP for the first half of the year was RMB653 billion, a period-on-period growth of 10.3% (compared with the corresponding period of last year) which was 2.7 percentage points lower than that of the preceding year. Foreign capital investment in Shanghai's tertiary industries was bustling. Tertiary industry output was RMB342.486 billion, up by 9.3%. Investment in fixed assets amounted to RMB197.248 billion, an increase of 2.3% compared with the corresponding period of last year and representing a decline of 7.3 percentage points in growth rate. Investment in real estate development was stable, totally RMB64.33 billion. This represented a growth of 3.8% which was 2.4% lower than the growth rate of the preceding year.

Macroeconomic measures targeting the real estate industry are not to further intensify

The PRC policies over the real estate market were stable in the first half of 2008 and the emphasis was placed on the effective implementation of the promulgated control measures for cooling down the real estate industry. It is worth noting that the China Securities Regulatory Commission has expressed in March its support for quality real estate enterprises to strengthen their business operations through capital market activities like IPO and backdoor listing but at the same time stated that activities for outrageous motives of hoarding lands and real estate resources or expanding land banks would not be approved. Such policies manifest that the PRC's macroeconomic measures against the real estate industry are aiming at providing guidance to the market as to ensure a normal and reasonable operation rather than curbing or suppressing its growth, with some of the measures stipulated for combating speculation and containment of the irrational speculative behaviors in the industry.

Credit policy continues to tighten

In 2008, the credit tightening policy in the PRC will remain unchanged. The People's Bank of China has raised the deposit reserve rate six times to a historical high of 17.5%. In addition, the inflation rate remains high and the negative impact of the US subprime mortgage crisis on the international capital market was not alleviated yet. Under such circumstances, the criteria the real estate enterprises will have to meet in order to source financing in the capital market have been raised.

Property investment market remains vigorous

In the first half of 2008, property investments in Shanghai remained fairly vigorous. Against the backdrop of the international capital market being affected by the subprime mortgage crisis of the U.S., China's relatively stable financial environment and the anticipated continuous appreciation of the Renminbi have been fuelling attention from overseas capitals on property assets in the PRC. In the first half of the year, there were a number of en-bloc acquisitions of quality properties including office buildings, service apartments etc, which reflected the popularity of developed properties in Shanghai among international investors. Meanwhile, compared with the significant downturn in the international and the PRC stock markets since the first half of the year, the attractiveness of making investment in property has become apparent.

The "two stables and one decline" phenomenon in the residential properties market

In the first half of 2008, Shanghai's residential properties market maintained a stable development trend and displayed a "two stables and one decline" phenomenon: investment in property developments was stable, selling price was stable and the gross floor area ("GFA") sold declined. According to the statistics issued by the Bureau of Statistics of Shanghai, from January to June 2008, the decrease in GFA sold was apparent. Total GFA sold amounted to 12,289,000 square meters, representing an approximately 18% decrease against the corresponding period of last year. Out of the total GFA sold, newly-built housing accounted for 10,720,000 square meters, representing a more than 20% drop compared with the corresponding period of last year. However, selling prices basically remained stable, with a compound monthly growth rate of approximately 0.4% in the first half of the year. According to the observation of the Statistics Department, the selling prices of approximately 90% of the residential properties remained basically unchanged on a monthly comparison.

Growth trend for offices and shops remained unchanged

The volatility in the global economy and the slowdown in economic growth in the PRC have not affected the Grade A office market in Shanghai in 2008. During the first half of the year, there were four en-bloc acquisitions of office building projects by overseas investors, which included the RMB1.1 billion transaction made by the global asset management giant-Blackstone Group of the US, its first foray into the PRC property market.

According to the statistics of Collier International, a well-known international real estate agency, the vacancy rate of Grade A offices in Shanghai was only 4.7% in the first half of 2008. Meanwhile, rental increased significantly to RMB9.9/day per square meter, up by 15.2% over the corresponding period in 2007. The limited supply of quality offices in the first half of the year and the keen demand resulted from the multi-national corporations' continuous expansion in the PRC in recent years were the main reasons for the low vacancy rate and continued increase in rentals.

For similar reasons, the commercial property sector in Shanghai has benefited from the continuous business development of international brands and retailers of trendy and fashionable goods who are widening their presence and networks by entering into various retail hubs. This has brought about a stable to slight increase in rentals of shopping mall properties in the first half of 2008. According to the statistics of Collier International, the average rental for ground floor shops increased 4.5% over the corresponding period of last year to RMB31/day per square meter while overall vacancy rate increased to 7.6%, slightly higher than that of the corresponding period of last year.

EMPLOYEES

As at 30 June 2008, the Group had retained 1,912 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\$33 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.

PURCHASE, SALE OF REDEMPTION OF THE COMPANY'S LISTED SHARES

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

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 of all Directors, who have confirmed that they complied with required standard set out in the Model Code.

AUDIT COMMITTEE

The Company established an audit committee on 12th November 2001 with terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee has five members comprising the two non-executive Directors and the three independent non-executive Directors.

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.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for 2008 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, 24th September 2008

As at the date of this announcement, the Company's executive directors are Mr. Shi Jian, Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong and Mr. Lee Wai Man; non-executive directors are Mr. Cheung Wing Yui and Mr. Jin Bing Rong; and independent non-executive directors are Mr. Yeung Kwok Wing, Mr. Jiang Xie Fu and Mr. E. Hock Yap.

* *For identification purpose only*