

SRE GROUP LIMITED

**(Incorporated in Bermuda with limited liability)
Audited Financial Statements**

31 December 2009

SRE GROUP LIMITED

CONTENTS	Pages
INDEPENDENT AUDITORS' REPORT	1 - 2
AUDITED FINANCIAL STATEMENTS	
Consolidated statement of comprehensive income	3 - 4
Statements of financial position	5 - 6
Consolidated statement of changes in equity	7 - 8
Consolidated statement of cash flows	9
Notes to financial statements	10 - 131



INDEPENDENT AUDITORS' REPORT
To the shareholders of SRE Group Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of SRE Group Limited set out on pages 3 to 131 which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



ERNST & YOUNG
安永

INDEPENDENT AUDITORS' REPORT (continued)
To the shareholders of SRE Group Limited
(Incorporated in Bermuda with limited liability)

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
18F Two International Finance Centre, 8 Finance Street, Central
Hong Kong
16 April 2010

SRE GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Revenue	5	2,830,596	3,739,865
Cost of sales	7	<u>(1,593,931)</u>	<u>(2,844,987)</u>
Gross profit		1,236,665	894,878
Other gains – net	6	1,087,899	1,411,217
Selling and marketing costs	7	(198,916)	(75,685)
Administrative expenses	7	<u>(345,047)</u>	<u>(251,350)</u>
Operating profit		<u>1,780,601</u>	<u>1,979,060</u>
Finance income	8	16,884	152,521
Finance costs	9	<u>(179,114)</u>	<u>(11,063)</u>
Finance (costs)/income – net		(162,230)	141,458
Share of profits and losses of associates		<u>(93,927)</u>	<u>(443,186)</u>
Profit before tax		1,524,444	1,677,332
Income tax expense	12	<u>(506,662)</u>	<u>(893,471)</u>
Profit for the year		<u>1,017,782</u>	<u>783,861</u>
Other comprehensive income			
Exchange differences on translation of financial statements into presentation currency		<u>15,786</u>	<u>412,968</u>
Other comprehensive income for the year, net of tax		<u>15,786</u>	<u>412,968</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,033,568</u>	<u>1,196,829</u>

SRE GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

Year ended 31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
Profit attributable to:			
Owners of the parent		785,081	247,936
Non-controlling interests		<u>232,701</u>	<u>535,925</u>
		<u>1,017,782</u>	<u>783,861</u>
Total comprehensive income attributable to:			
Owners of the parent	13	797,350	645,810
Non-controlling interests		<u>236,218</u>	<u>551,019</u>
		<u>1,033,568</u>	<u>1,196,829</u>
Earnings per share attributable to ordinary equity holders of the parent	15		
- Basic		<u>24.47 cents</u>	<u>8.91 cents</u>
- Diluted		<u>23.70 cents</u>	<u>8.64 cents</u>

Details of the dividends payable and proposed for the year are disclosed in Note 14 to the financial statements.

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

SRE GROUP LIMITED
STATEMENTS OF FINANCIAL POSITION

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	Group		Company	
		2009	2008	2009	2008
ASSETS					
Non-current assets					
Property, plant and equipment	16	2,684,121	1,668,269	3,229	282
Completed investment properties	17	6,329,400	5,248,073	-	-
Investment properties under construction	17	193,879	-	-	-
Prepaid land lease payments	18	565,492	885,914	-	-
Goodwill	19	453,788	447,495	-	-
Investments in subsidiaries	20(a)	-	-	4,433,839	4,565,875
Advances to subsidiaries	20(b)	-	-	1,346,117	1,073,459
Interests in associates	21(a)	87,807	530,402	-	-
Deferred tax assets	34	177,588	19,811	-	-
Non-current accounts receivable	27	106,365	-	-	-
Other non-current assets	22	362,935	279,042	279,485	279,042
		<u>10,961,375</u>	<u>9,079,006</u>	<u>6,062,670</u>	<u>5,918,658</u>
Current assets					
Prepaid land lease payments	18	7,954,454	6,654,264	-	-
Properties held or under development for sale	23	4,705,378	3,096,513	-	-
Land infrastructure under development for sale	24	4,353,169	-	-	-
Inventories		19,852	30,885	-	-
Dividends receivable from subsidiaries		-	-	727,651	390,573
Amounts due from associates	21(b)	1,825	138,968	-	132,438
Prepayments and other current assets	25	261,014	66,404	51,506	555
Other receivables	26	1,329,071	642,145	86	-
Accounts receivable	27	401,322	18,165	-	-
Prepaid income tax		83,820	5,303	-	-
Cash and bank balances	28	4,602,822	1,575,476	84,821	170,687
		<u>23,712,727</u>	<u>12,228,123</u>	<u>864,064</u>	<u>694,253</u>
Total assets		<u>34,674,102</u>	<u>21,307,129</u>	<u>6,926,734</u>	<u>6,612,911</u>

SRE GROUP LIMITED
STATEMENTS OF FINANCIAL POSITION (continued)

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Notes	Group		Company	
		2009	2008	2009	2008
EQUITY AND LIABILITIES					
EQUITY					
Issued capital and premium	29	4,736,489	4,003,101	4,736,489	4,003,101
Other reserves	30	1,221,202	1,019,625	714,834	527,086
Retained profits	30	2,234,050	1,449,859	246,098	5,817
Equity attributable to owners of the parent		8,191,741	6,472,585	5,697,421	4,536,004
Non-controlling interests		3,115,939	1,400,776	-	-
Total equity		11,307,680	7,873,361	5,697,421	4,536,004
LIABILITIES					
Non-current liabilities					
Interest-bearing bank and other borrowings	31	5,942,549	3,045,114	293,366	216,865
Guaranteed senior notes	32	552,463	1,537,947	552,463	1,537,947
Deferred income from sale of golf club membership	33	639,041	-	-	-
Deferred tax liabilities	34	1,638,787	1,430,596	-	-
		8,772,840	6,013,657	845,829	1,754,812
Current liabilities					
Interest-bearing bank and other borrowings	31	1,589,958	1,495,640	45,950	142,620
Convertible bonds - host debts	35	312,219	62,008	312,219	62,008
Derivative financial liabilities	36	-	88,470	-	88,470
Advances received from the pre-sale of properties under development	37	4,943,649	1,171,996	-	-
Accounts payable	38	3,176,373	1,357,377	-	-
Other payables and accruals	39	2,339,360	2,241,817	25,315	21,024
Current income tax liabilities		1,428,561	983,491	-	-
Guaranteed senior notes, current portion	32	95,813	-	-	-
Deferred income arising from construction of ancillary public facilities	33	696,291	-	-	-
Amounts due to related companies	40	11,358	19,312	-	7,973
		14,593,582	7,420,111	383,484	322,095
Total liabilities		23,366,422	13,433,768	1,229,313	2,076,907
Total equity and liabilities		34,674,102	21,307,129	6,926,734	6,612,911
Net current assets		9,119,145	4,808,012	480,580	372,158
Total assets less current liabilities		20,080,520	13,887,018	6,543,250	6,290,816

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



Shi Jian
Chairman



Yu Hai Sheng
Vice Chairman and Chief Executive Officer

SRE GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to owners of the parent										
	Issued capital and premium (Note 29)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Equity component of convertible bonds	Retained profits	Total	Non-controlling interests	Total equity
At 1 January 2009	4,003,101	7,238	248	214,076	722,123	75,940	-	1,449,859	6,472,585	1,400,776	7,873,361
Total comprehensive income for the year	-	-	-	-	12,269	-	-	785,081	797,350	236,218	1,033,568
Share of equity-settled share options of an associate	-	-	-	-	-	3,969	-	-	3,969	-	3,969
Revaluation reserve transfer to retained profits upon sale of properties	-	(740)	-	-	-	-	-	740	-	-	-
Appropriation from retained profits	-	-	-	1,630	-	-	-	(1,630)	-	-	-
Issuance of shares upon conversion of convertible bonds	247,212	-	-	-	-	-	-	-	247,212	-	247,212
Issuance of new shares	486,176	-	-	-	-	-	-	-	486,176	-	486,176
Equity component of issued convertible bonds during the year	-	-	-	-	-	-	179,361	-	179,361	-	179,361
Equity-settled share options to management of a subsidiary	-	-	-	-	-	2,198	-	-	2,198	2,272	4,470
Disposal of subsidiaries (Note 46)	-	-	-	-	-	-	-	-	-	(210,974)	(210,974)
Acquisition of subsidiaries (Note 45)	-	-	-	-	-	-	-	-	-	1,756,098	1,756,098
Changes due to increase in equity interests in a subsidiary	-	-	-	-	-	2,890	-	-	2,890	(45,043)	(42,153)
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	(23,408)	(23,408)
At 31 December 2009	4,736,489	6,498*	248*	215,706*	734,392*	84,997*	179,361*	2,234,050	8,191,741	3,115,959	11,307,680

SRE GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
Year ended 31 December 2009
(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	Attributable to owners of the parent								Total equity	
	Issued capital and premium (Note 29)	Asset revaluation reserve	Share option reserve	Surplus reserve	Exchange fluctuation reserve	Other reserves	Retained profits	Total		Non-controlling interests
At 1 January 2008	3,956,327	16,869	248	214,076	324,249	-	1,288,117	5,799,886	783,469	6,583,355
Total comprehensive income for the year	-	-	-	-	397,874	-	247,936	645,810	551,019	1,196,829
Share of equity movements of an associate	-	-	-	-	-	75,940	-	75,940	-	75,940
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	(427)	(427)
Capital contribution from non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	100,397	100,397
Revaluation reserve transfer to retained profits upon sale of properties	-	(9,631)	-	-	-	-	9,631	-	-	-
Dividends relating to 2007	-	-	-	-	-	-	-	-	-	-
- Cash dividends (Note 14)	-	-	-	-	-	-	(49,051)	(49,051)	-	(49,051)
- Scrip dividends (Note 14)	46,774	-	-	-	-	-	(46,774)	-	-	-
Dividends to non-controlling shareholders of subsidiaries	-	-	-	-	-	-	-	-	(33,682)	(33,682)
At 31 December 2008	4,003,101	7,238*	248*	214,076*	722,123*	75,940*	1,449,859	6,472,585	1,400,776	7,873,361

* These reserve accounts are all booked under the consolidated reserves of HK\$1,221,202 thousand (2008: HK\$1,019,625 thousand) in the consolidated statement of financial position.

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

SRE GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	41	3,112,001	(504,384)
Interest paid		(471,367)	(433,183)
Income tax paid		(288,897)	(118,208)
Net cash flows from/(used in) operating activities		<u>2,351,737</u>	<u>(1,055,775)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(84,428)	(288,913)
Proceeds from disposal of property, plant and equipment		1,952	5,738
Proceeds from disposal of an investment property		34,044	-
Construction of investment properties		(114,260)	(151,639)
Payments for land use rights		(105,175)	-
Acquisition of subsidiaries, net of cash acquired	45	(121,289)	(26,784)
Disposal of subsidiaries	46	(3,718)	-
Refund of earnest money for acquisition of an additional equity interest in a subsidiary		-	41,374
Earnest money paid to third party companies for acquisition of two companies		(25,906)	-
Increase in investments in associates		(145,631)	(14,023)
Disposal of an equity interest in a company		-	199,685
Earnest money paid for investment and properties		-	(403,040)
Increase in time deposits with original maturity over three months		(2,953)	(4,997)
Dividends received from associates		8,521	-
Interest received		16,551	16,727
Net cash flows used in investing activities		<u>(542,292)</u>	<u>(625,872)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from issuance of convertible bonds		479,236	162,932
Net proceeds from issuance of new shares		486,176	-
Capital divestment of non-controlling shareholders of subsidiaries		(227)	-
Cash paid by a subsidiary to purchase its own shares		(42,153)	-
Decrease/(increase) in pledged bank deposits		55,134	(95,932)
Cash placed as restricted deposits in relation to interest payments for bank borrowings		(40,894)	-
Proceeds from short-term borrowings		-	737,045
Repayments of short-term borrowings		(453,566)	(1,299,467)
Proceeds from long-term borrowings		5,366,301	1,569,355
Repayments of long-term borrowings		(3,563,036)	(446,647)
Redemption of convertible bonds		-	(46,406)
Cash received from the capital injection from non-controlling shareholders of subsidiaries		-	100,397
Net cash paid on redemption of guaranteed senior notes		(817,715)	-
Dividends paid to non-controlling shareholders of subsidiaries		(21,798)	(33,682)
Dividends paid to the Company's shareholders	14	-	(49,051)
Net cash flows from financing activities		<u>1,447,458</u>	<u>598,544</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		3,256,903	(1,083,103)
Cash and cash equivalents at beginning of year		873,523	1,851,769
Effect of foreign exchange rate changes, net		3,686	104,857
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	<u><u>4,134,112</u></u>	<u><u>873,523</u></u>

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

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

1. CORPORATE INFORMATION

SRE Group Limited (the “Company”) was incorporated in Bermuda with limited liability on 11 August 1999 as an exempted company under the Bermuda Companies Act 1981. Pursuant to a group reorganisation (the “Reorganisation”) in connection with the listing of the Company’s shares on the Stock Exchange of Hong Kong (“HKSE”), the Company became the ultimate holding company of the other companies comprising the Group on 12 November 1999. Further details of the Reorganisation are set out in the Company’s prospectus dated 30 November 1999. The shares of the Company were listed on the HKSE on 10 December 1999. The principal place of business of the Company is located at Room 2501, 25th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wan Chai, Hong Kong.

The Company and its subsidiaries (collectively referred to as the “Group”) were mainly engaged in real estate development, large-scale new towns planning and development, property leasing and hotel operations in Mainland China during the year.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

In preparing the financial statements, the directors of the Company have considered the Group’s sources of liquidity, its ability to maintain adequate cash inflow from operations and financing to meet its financial obligations as and when they fall due, and believe that adequate funding is available to fulfil the Group’s debt obligations and capital expenditure requirements. Accordingly, the consolidated financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

Basis of consolidation

Basis of consolidation from 1 January 2009

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2009.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation from 1 January 2009 (continued)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Basis of consolidation prior to 1 January 2009

In comparison to the abovementioned requirements which were applied on a prospective basis, the following differences applied:

- Non-controlling interests represented the portion of profit or loss and net assets that were not held by the Group and were presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. Acquisitions of non-controlling interests were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.1 BASIS OF PREPARATION (continued)

Operating cycle

The operating cycle of the Group is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. Due to the nature of the Group's business, the Group's normal operating cycle is longer than 12 months. The Group's current assets include assets (such as properties held or under development for sale and land infrastructure under development for sale, etc.) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within 12 months after the end of the reporting period.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and revised or amended HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 1 and HKAS 27	<i>Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>
HKFRS 2 Amendments	<i>Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 3 (Revised) and HKAS 27 (Revised) and consequential amendments to HKAS 7, HKAS 12, HKAS 21, HKAS 28 and HKAS 31	<i>Business Combinations and Consolidated and Separate Financial Statements (early adopted)</i>
HKFRS 7 Amendments	<i>Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments</i>
HKFRS 8	<i>Operating Segments</i>
HKAS 1 (Revised)	<i>Presentation of Financial Statements</i>
HKAS 23 (Revised)	<i>Borrowing Costs</i>
HKAS 32 and HKAS 1 Amendments	<i>Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation</i>
HK(IFRIC)-Int 9 and HKAS 39 Amendments	<i>Amendments to HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
HK(IFRIC)-Int 13	<i>Customer Loyalty Programmes</i>
HK(IFRIC)-Int 15	<i>Agreements for the Construction of Real Estate</i>
HK(IFRIC)-Int 16	<i>Hedges of a Net Investment in a Foreign Operation</i>
HK(IFRIC)-Int 18	<i>Transfers of Assets from Customers (adopted from 1 July 2009)</i>
Improvements to HKFRSs (October 2008)	<i>Amendments to a number of HKFRSs</i>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

The principal effects of adopting these new and revised or amended HKFRSs are as follows:

- (a) Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in profit or loss in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively.

- (b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation.

- (c) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

The Group adopted HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements* for the year ended 31 December 2009. HKFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after the beginning of the annual reporting period when the revised standard is adopted. For subsidiaries acquired through step acquisition, the requirement to measure at fair value every asset and liability at each step for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill is measured as the difference at the acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Non-controlling interests are measured either at their proportionate interest in the net identifiable assets or at fair value. Acquisition-related costs are generally recognised as expenses (rather than included in goodwill). Contingent consideration must be recognised and measured at fair value at the acquisition date. Subsequent changes in fair value of contingent consideration are recognised in accordance with other HKFRSs, usually in profit or loss (rather than by adjusting goodwill).

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (c) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements* (continued)

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

Upon adoption of HKFRS 3 (Revised) and HKAS 27 (Revised), the Group has also adopted the consequential amendments to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effect of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

Consequential amendments above did not have significant impact on the accounting policies of the Group.

The change in accounting policy as a result of the adoption of the revised standards was applied prospectively, and hence has had no impact on the Group's consolidated financial statements for the year ended 31 December 2008. The revised standards affected the accounting for business combination (the step acquisition) of CNTD (as detailed in Note 45(1)) and accounting for subsequent increase in equity interest after date of acquisition in 2009. The accounting treatment under the revised standards resulted in an approximately HK\$49 million increase in net profit attributable to owners of the parent (and hence increase the basic and diluted earnings per share by 1.53 Hong Kong cent, 1.44 Hong Kong cent respectively) for the year ended 31 December 2009, and a corresponding decrease in asset valuation reserve by approximately HK\$52 million and an increase in other reserves by HK\$3 million. The revised standards have no impact on the net assets reported in the consolidated financial statements as of 31 December 2009.

- (d) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 49 to the financial statements. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 50 to the financial statements.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(e) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These disclosures, including the related comparative information, are shown in Note 4 to the financial statements.

(f) HKAS 1 (Revised) *Presentation of Financial Statements*

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

- (i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

- (j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

- (k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 *Revenue*. The interpretation has had no impact on the accounting for the Group's construction activities.

- (l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the profit or loss as a reclassification adjustment.

- (m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers* (adopted from 1 July 2009)

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(n) In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- *HKFRS 7 Financial Instruments: Disclosures*: Removes the reference to “total interest income” as a component of finance costs.
- *HKAS 1 Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with HKAS 39 are not automatically classified as current in the statement of financial position.
- *HKAS 16 Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell” and the recoverable amount of property, plant and equipment is the higher of an asset’s fair value less costs to sell and its value in use.

In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- *HKAS 28 Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.
- *HKAS 36 Impairment of Assets*: When discounted cash flows are used to estimate “fair value less costs to sell”, additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate “value in use”.
- *HKAS 38 Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(n) (continued)

- **HKAS 40 *Investment Property***: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group has applied the amendment prospectively from 1 January 2009. The Group's accounting policy for investment properties is to subsequently state them at fair value with changes in fair values recognised in profit or loss. As a result of the amendment, an investment property under construction is carried at fair value at the earlier of when the fair value first becomes reliably determinable and when the construction of the property is completed.

As a result of the adoption of this amendment, a loss on the valuation of investment property under construction of HK\$592 thousand has been recognised for the year ended 31 December 2009 (Note 17).

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 (Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i> ¹
HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters</i> ²
	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters</i>
HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment – Group Cash-settled Share-based Payment Transactions</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁶
HKAS 24 (Revised)	<i>Related Party Disclosures</i> ⁵
HKAS 32 Amendment	Amendment to HKAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i> ³
HKAS 39 Amendment	Amendment to HKAS 39 <i>Financial Instruments: Recognition and Measurement – Eligible Hedged Items</i> ¹
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 <i>Prepayments of a Minimum Funding Requirement</i> ⁵
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i> ¹
HK(IFRIC)-Int 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i> ⁴
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	Amendments to HKFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary</i> ¹
HK Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i> ²

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36, HKAS 38 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

- ¹ Effective for annual periods beginning on or after 1 July 2009
- ² Effective for annual periods beginning on or after 1 January 2010
- ³ Effective for annual periods beginning on or after 1 February 2010
- ⁴ Effective for annual periods beginning on or after 1 July 2010
- ⁵ Effective for annual periods beginning on or after 1 January 2011
- ⁶ Effective for annual periods beginning on or after 1 January 2013

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments are not expected to have impacts on the consolidated financial statements of the Group.

The HKFRS 1 Amendments provide relief from the full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. The amendments are not expected to have impacts on the consolidated financial statements of the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 *Scope of HKFRS 2* and HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*. The Group expects to adopt the HKFRS 2 Amendments from 1 January 2010. The amendments are not expected to have impacts on the consolidated financial statements of the Group.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group has not decided to early adopt HKFRS 9. Currently, the Group does not expect the new standard to have material impacts on the consolidated financial statements.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and does not expect the amendment to have impacts on the the consolidated financial statements.

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS 32 Amendment from 1 January 2011. The amendment is not expected to have impacts on the consolidated financial statements of the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt the HKAS 39 Amendment from 1 January 2010. The amendment is not expected to have impacts on the consolidated financial statements of the Group.

The HK(IFRIC)-Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. The Group expects to adopt the amendments from 1 January 2011, and does not expect the amendments to have impacts on the consolidated financial statements.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Reporting Period* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is not expected to have material impacts on the consolidated financial statements of the Group.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. The Group does not expect the interpretation to have material impacts on the consolidated financial statements.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary. The Group does not expect the amendments to have impacts on the consolidated financial statements.

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments when they become effective. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have significant impacts on the consolidated financial statements of the Group.

HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this Interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40. The Group does not expect the amendment to have significant impacts on the consolidated financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post acquisition results and reserves of associates is included in the consolidated statement of comprehensive income and/or consolidated reserves. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Business combination and goodwill

Business combinations from 1 January 2009

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill arising on the acquisition of subsidiaries and associates is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities and contingent liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

Business combinations from 1 January 2009 (continued)

In the case of associates, goodwill is included in the carrying amount of investments in associates, rather than as a separately identified asset in the consolidated statement of financial position.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations prior to 1 January 2009

In comparison to the abovementioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for by separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

Business combinations prior to 1 January 2009 (continued)

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration affected goodwill.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and associates, after reassessment, is recognised immediately in profit or loss.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, properties held or under development for sale, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Hotel buildings	Shorter of 40 years and the remaining terms of the leases, which range from 30 to 40 years
Other buildings	20 years
Golf operational assets	Golf course between 40 and 50 years, club buildings 30 years, club equipment 10 years, club fixtures and fittings 5 years
Leasehold improvements	Shorter of the remaining period of the lease and the useful life of the assets
Furniture, fitting, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period. From 1 January 2009 onwards, an investment property under construction is carried at fair value at the earlier of when the fair value first becomes reliably determinable and when the construction of the property is completed. Prior to 31 December 2008, investment property under construction was carried at cost less accumulated impairment.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with HKAS 16. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. As a lessor, the Group recognises the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes gain do not include any dividends or interest earned on these financial assets, which are recognised in accordance with policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables or available-for-sale financial assets depends on the nature of the assets.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The loss arising from impairment is recognised in profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss as other gains, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in profit or loss and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in profit or loss in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

The Group evaluates its available-for-sale financial investments whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or “prolonged” requires judgment. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group’s financial liabilities include trade and other payables, amounts due to related companies, derivative financial instruments, interest-bearing bank loans and other borrowings, guaranteed senior notes, and convertible bonds.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives, are classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Convertible bonds

For a convertible bonds which comprise both liability and equity components under HKAS 32, on issuance of convertible bonds, the fair value of the liability component (including host debt and, if any, embedded derivatives other than the equity component) is determined using a market rate for an equivalent non-convertible bond; and the host debt is carried as a liability at amortised cost, and the embedded derivatives that need to be separated from the host debt, if any, are carried as derivative financial liabilities at fair value, until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Convertible bonds (continued)

Where the convertible bonds contain only liability and derivative components, if the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its host debt component. On initial recognition, the derivative component (including all embedded derivatives that should be separated from the host debt) of the convertible bonds is measured at fair value and presented as part of derivative financial liabilities. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host debt component (also as a liability). Transaction costs are apportioned between the host debt and derivative components of the convertible bonds based on the allocation of proceeds to the host debt and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the host debt is recognised initially as part of the host debt liability. The portion relating to the derivative component is recognised immediately in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models or other valuation models.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Properties held or under development for sale

Properties held or under development for sale are included in current assets at the lower of cost and net realisable value.

The costs of properties held or under development for sale comprise specifically identified cost, including acquisition costs, development expenditures and borrowing costs and other related expenditure directly attributable to the development of such properties. Net realisable value is based on estimated selling price in the ordinary course of business as determined by management with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing costs.

Land infrastructure under development

Land infrastructure under development is stated at the lower of cost and net realisable value.

Development cost of land infrastructure comprises the aggregate cost of development, materials and supplies, capitalised borrowing costs on related borrowing funds during the period of construction and other costs directly attributable to such land infrastructure.

Net realisable value takes into account the Group's share of proceeds derived from the sale of land infrastructure by government authorities, less costs to completion and the costs to be incurred in realising the revenue derived from the sale of land infrastructure based on prevailing market conditions.

Inventories

Inventories mainly comprise food, beverages, operating supplies and low value consumables used in hotel and golf course operations, and are stated at the lower of cost or net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets with similar nature to cash, which are not restricted as to use.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

Sale of development properties

Revenue from the sale of properties is recognised upon completion of a sale agreement, which refers to the time when properties are completed and delivered to the buyers. Deposits and instalments received on properties sold prior to completion of the respective sale agreements are included as advances received from the pre-sale of properties under development.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Development of land infrastructure

Certain subsidiaries of the Company has been given the right to carry out construction and preparation works in respect of the infrastructure of land plots and public facilities within the districts owned by the local government. The completed land plots are sold by the governments to land buyers through public auction, tender or listing procedures from time to time, upon which the Group is entitled receive a proportion of revenue proceeds.

The Group provides land buyers with certain construction works, including the infrastructure of land plots and surrounding public facilities. As public facilities are separately identifiable from the infrastructure of land plots, which are normally completed when the plots are sold to land buyers by the government, certain public facilities may not be completed at the time of the sale. Total revenue proceeds are allocated between the completed and the outstanding construction works based on their fair value.

In addition, no revenue from the development of the infrastructure (attributable to the parcels to be sold) would be recognised before the sales by the government of the parcels of land, as the amount of revenue (attributable to the parcels to be sold) cannot be measured reliably before such sales occur.

The revenue attributable to the completed infrastructure is recognised upon the transfer of risks and rewards in connection with land plots, which refers to the time when the land plots are sold to the buyers by the government through public land auction, tender or listing procedures. The deferred revenue of outstanding construction works is recognised when the related construction works are completed.

Golf course operations

Revenue from golf course operations represents the income from the usage of golf courses and ancillary equipment, the provision of golf services, and the provision of food and beverages, etc., which is recognised when the services are rendered or goods are sold.

Golf club membership revenue

Golf club membership entitles the members to golf operations related services provided during the membership period or to purchase goods or services at prices lower than those charged to non-members. Revenue from golf club membership is recognised on the straight-line basis which reflects the expected period when the benefits are provided.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Property leasing under operating lease

Operating lease income from investment properties is recognised on the straight-line basis over the lease term, which is the non-cancellable period for which the lessee has contracted to lease the properties together with any further terms for which the lessee has the option to continue to lease the properties, with or without further payments, when at the inception of the lease, it is reasonably certain that the lessee will exercise the option.

Sale of network equipment

Revenue from the sale of network equipment is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. The Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Construction of infrastructure for an intelligent network and installation of intelligent network

Revenue from the construction of infrastructure for an intelligent network and installation of intelligent network is recognised as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Property management

Property management income is recognised in the accounting period in which the services are rendered.

Hotel operations

Revenue from hotel operations represents the income from hotel rooms and the sale of related food and beverages, which is recognised when the services are rendered or goods are sold.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

Dividend income

Dividend income is recognised when the shareholders' right to receive payment is established.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

A subsidiary of the Company, China New Town Development Company Limited (“CNTD”) operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the CNTD Group’s operations. Employees (including senior executives) of CNTD receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by the Group with assistance from the valuer using an appropriate pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share, where appropriate.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

Employee retirement scheme

The employees of the Group's entities which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The entities are required to contribute 19% to 22% of the standard salary announced by the government to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. In addition, the Group participates in a Mandatory Provident Fund Scheme, under which contributions of 5% of the Hong Kong employee's basic salaries are made by the employer and the Hong Kong employees, respectively. The provision and contributions have been included in profit or loss upon incurrence. The Group has no obligation for the payment of pension benefits beyond the contributions described above.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a weighted average capitalisation rate of 7.03% (excluding CNTD and its subsidiaries which manage their financing separately from the other entities of the Group) (2008: 8.02 %) has been applied to the expenditure on the individual assets. The weighted average interest capitalisation rate of CNTD during the year was 9.97%.

Government grants

Government grants (including non-monetary grants) are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the grant is deducted from the relevant asset before arriving at the carrying amount of the asset. The grant is recognised in profit or loss over the time of asset realisation by way of a reduced cost of assets' charge. Grants received in connection with the Group's role in planning and constructing the ancillary public facilities are deducted from the development cost of the ancillary public facilities and would be recognised indirectly in the form of an increased profit margin over the course of recognising revenue in connection with the ancillary public facilities services.

Dividends

When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

(a) Functional and presentation currencies

Items included in the financial statements of each of the entities in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The Company’s and its subsidiaries’ functional currencies are Renminbi (“RMB”), as the major revenues are derived from operation in Mainland China. Considering the Company is listed on the HKSE, Hong Kong dollars (“HK\$”) is chosen as the presentation currency to present these financial statements.

(b) Transactions and balances

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities of the Group are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period;
- (ii) income and expenses of the Group are translated into the presentation currency at the average exchange rates for the period (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated into the presentation currency at the exchange rate ruling at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

For the purpose of the consolidated statement of cash flows, the cash flows all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of which arise throughout the year are translated into the presentation currency at the weighted average exchange rates for the year.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

(c) Group companies (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, if any, and all monetary items that provide an effective hedge for such investments, if any, are recognised in other comprehensive income. When a foreign operation is disposed of, such exchange differences are recognised in profit and loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation, if any, are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events not wholly within the control of the Group. Contingent liabilities (except for contingent liability recognised in a business combination) and assets are not recognised on the statement of financial position of the Group and the Company.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was HK\$454 million (2008: HK\$447 million). More details are given in Note 19.

Estimation of fair value of investment properties

Investment properties were revalued at the end of each reporting period during the years ended 31 December 2009 and 31 December 2008 using the discounted cash flow method or term and reversion method on the basis of capitalisation of net rental income derived from the existing tenancies with due allowance for reversionary income potential of the property interest by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimate, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Investment properties under construction are also carried at fair value as determined by independent professional qualified valuers, except if such values cannot be reliably determined. In the exceptional cases when a fair value cannot be reliably determined, such properties are recorded at cost. The fair value of investment properties under construction is determined using either the Discounted Cash Flow Method or the Residual Method.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Carrying amount of land infrastructure under development

The Group's land infrastructure under development is stated at the lower of cost and net realisable value. If acquired in a business combination, the acquisition-date fair value (as cost to the Group) of such land infrastructure under development was determined by the Group and independent professionally qualified valuers using Discounted Cash Flow Method or other appropriate methods. Based on the Group's recent experience and the nature of the subject land infrastructure, the Group makes estimates of cost allocated to each parcel of land and attributable to ancillary public facilities and infrastructure, and its net realisable value, i.e., the revenue to be derived from the sale of land infrastructure by government authorities, less costs to completion and the costs to be incurred in realising the revenue from the sale of land infrastructure under development based on prevailing market conditions.

If the cost is higher than the estimated net realisable value, provision should be made to report land infrastructure under development at its net realisable value. Such provision would require the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for land infrastructure in the periods in which such estimate is changed will be adjusted accordingly.

Deferred tax assets and current income tax charge

Uncertainties exist with respect to the interpretation of certain tax regulations and the amount and timing of future taxable income. Given the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax credit and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group entity's domicile.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets and current income tax charge (continued)

Deferred tax assets are recognised for deductible temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax credits and unused tax losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimates, such differences will impact on the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed.

Estimation of fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and separated derivatives components of the convertible bonds) is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The fair values of the convertible bonds (including the values allocated the host debt, conversion options classified either as a financial liability or equity and other derivatives embedded in the convertible bonds that need to be separately accounted for) that need to be accounted for at fair value at initial recognition (or subsequently if there is any embedded derivative that needs to be separately accounted for), cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow method and option price models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as credit risk, market risk and volatility, etc. Changes in assumptions about these factors could affect the reported carrying values of such financial instruments.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets (other than goodwill) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

4. 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 infrastructure development segment engages in land infrastructure development and the 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 operating results of the Group's business units separately for the purpose of making decisions about resource 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.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

An analysis by business segment is as follows:

	2009					Total
	Property development	Land infrastructure development	Property leasing	Hotel operations	Corporate and other operations	
Segment revenue						
Sales to external customers	1,552,399	910,900	113,320	159,196	94,781	2,830,596
Intersegment sales	-	-	-	-	9,686	9,686
	<u>1,552,399</u>	<u>910,900</u>	<u>113,320</u>	<u>159,196</u>	<u>104,467</u>	<u>2,840,282</u>
<i>Reconciliation:</i>						
Elimination of intersegment sales						(9,686)
Revenue						<u>2,830,596</u>
Segment profit/(loss)	<u>253,150</u>	<u>532,297</u>	<u>628,570</u>	<u>(121,281)</u>	<u>487,865</u>	1,780,601
Finance income						16,884
Finance costs						(179,114)
Finance costs - net						(162,230)
Share of profits and losses of associates						(93,927)
Profit before tax						<u>1,524,444</u>
Segment assets and liabilities						
Segment assets	<u>16,771,222</u>	<u>6,036,235</u>	<u>6,753,736</u>	<u>2,212,531</u>	<u>2,812,571</u>	34,586,295
Interests in associates						87,807
Total assets						<u>34,674,102</u>
Segment liabilities	<u>13,316,164</u>	<u>2,525,710</u>	<u>1,842,959</u>	<u>68,476</u>	<u>5,613,113</u>	23,366,422
Total liabilities	<u>13,316,164</u>	<u>2,525,710</u>	<u>1,842,959</u>	<u>68,476</u>	<u>5,613,113</u>	<u>23,366,422</u>
Other segment information:						
Depreciation and amortisation	89,306	2,815	1,087	15,687	31,169	140,064
Capital expenditure*	20,663	1,221	121,311	91,342	6,602	241,139
Fair value loss on derivative financial liabilities, net	-	-	-	-	89,055	89,055
Fair value gain on investment properties	-	-	(476,162)	-	-	(476,162)
(Reversal of) / Provision for impairment losses	<u>2,739</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(106,765)</u>	<u>(104,026)</u>

* Capital expenditure consists of additions of properties, plant and equipment (HK\$30,446 thousand), investment properties (HK\$121,161 thousand) and prepaid land lease payments (non-current) (HK\$89,532 thousand).

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

	2008				Total
	Property development	Property leasing	Hotel operations	Corporate and other operations	
Segment revenue					
Sales to external customers	3,515,811	67,663	96,886	59,505	3,739,865
Intersegment sales	-	-	-	46,424	46,424
	<u>3,515,811</u>	<u>67,663</u>	<u>96,886</u>	<u>105,929</u>	<u>3,786,289</u>
<i>Reconciliation:</i>					
Elimination of intersegment sales					(46,424)
Revenue					<u>3,739,865</u>
Segment profit/(loss)	<u>852,599</u>	<u>1,369,402</u>	<u>(107,322)</u>	<u>(135,619)</u>	1,979,060
Finance income					152,521
Finance costs					(11,063)
Finance income - net					<u>141,458</u>
Share of profits and losses of associates					(443,186)
Profit before tax					<u>1,677,332</u>
Segment assets and liabilities					
Segment assets	<u>12,907,980</u>	<u>5,354,972</u>	<u>1,817,715</u>	<u>696,060</u>	20,776,727
Interests in associates					530,402
Total assets					<u>21,307,129</u>
Segment liabilities	<u>9,696,931</u>	<u>1,871,065</u>	<u>55,297</u>	<u>1,810,475</u>	13,433,768
Total liabilities	<u>9,696,931</u>	<u>1,871,065</u>	<u>55,297</u>	<u>1,810,475</u>	<u>13,433,768</u>
Other segment information:					
Depreciation and amortisation	6,493	112	91,484	525	98,614
Capital expenditure*	6,583	184,339	256,256	1,512	448,690
Fair value gain on derivative financial liabilities, net	-	-	-	7,240	7,240
Fair value gain on investment properties	-	(1,394,587)	-	-	(1,394,587)
Provision for impairment losses	-	-	38,827	104,882	143,709

* Capital expenditure consists of additions of properties, plant and equipment (HK\$288,135 thousand), investment properties (HK\$102,377 thousand) and prepaid land lease payments (non-current) (HK\$58,178 thousand).

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

- (a) All the sales to external customers of the Group are generated from Mainland China.
- (b) Non-current assets

	<u>2009</u>	<u>2008</u>
Hong Kong	3,229	282
Mainland China	<u>10,223,451</u>	<u>8,249,469</u>
	<u>10,226,680</u>	<u>8,249,751</u>

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about major customers

Land infrastructure development revenue from the Group's share of proceeds of land sale by local authorities in Shanghai accounted for approximately 29% (2008: None) of the Group's revenue in the year ended 31 December 2009.

The Group's other customers are widely dispersed. Other than mentioned in previous paragraph, no revenue amounting to 10% or more of the Group's revenue was derived from sales to a single customer or a group of customers under common control for the years ended 31 December 2009 and 2008.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; room charges from hotel operations and gross rental income received and receivable from investment properties during the year.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

5. REVENUE (continued)

An analysis of revenue is as follows:

	<u>2009</u>	<u>2008</u>
Sale of development properties	1,633,588	3,705,960
Development of land and construction of ancillary public facilities	958,725	-
Hotel operations	167,631	102,010
Revenue from property leasing (Note 17)	120,612	72,939
Property management income	60,673	53,443
Golf operation	34,504	-
Revenue from construction of infrastructure for an intelligent network	10,367	4,103
Sale of network hardware and installation of intelligent home equipment	4,786	6,340
Other revenue	<u>1,870</u>	<u>-</u>
	2,992,756	3,944,795
Less: Business tax and surcharges	<u>(162,160)</u>	<u>(204,930)</u>
Total revenue	<u>2,830,596</u>	<u>3,739,865</u>

(i) Business tax and surcharges

Business tax is calculated at 5% of the revenue from the sale of properties, the development of land, hotel operations, golf operation, the installation of intelligent home equipment, the provision of property management services and property leasing 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, comprising City Maintenance and Construction Tax, Education Surtax, Dike Maintenance, Selective Service Surcharge and River Way Management Fee, are calculated at certain percentages of business tax.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

6. OTHER GAINS - NET

	<u>2009</u>	<u>2008</u>
Fair value gain on investment properties (Note 17)	476,162	1,394,587
Derivative instruments at fair value through profit or loss - fair value (loss)/gain, net (Note 35)	(89,055)	7,240
Gain on disposal of property, plant and equipment, net	81	542
Loss from dilution of an equity interest in an associate	-	(41,616)
Gain on disposal of subsidiaries (Note 46)	43,349	-
Gain on disposal of unquoted equity investment stated at cost	-	178,326
Gain on disposal of an investment property	26,397	-
Impairment of property, plant and equipment (Note 16)	-	(38,827)
Gain from redemption of CB2	-	12,783
Reversal/(impairment) of an interest in an associate	104,403	(104,320)
Gain on redemption of guaranteed senior notes	179,102	-
Excess of share of fair value of net assets acquired over consideration for the acquisition of additional interest in an associate	300,415	-
Loss on remeasurement (at acquisition-date fair value) of a previously held equity interest held in an acquiree (CNTD)	(184,398)	-
The Excess of acquisition-date amounts of the net assets acquired over the aggregate of consideration transferred, the amount of non-controlling interest and the acquisition-date fair value of the Group's previously held equity interest in the acquiree (CNTD)	236,350	-
Others	(4,907)	2,502
	<u>1,087,899</u>	<u>1,411,217</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

7. EXPENSE BY NATURE

	<u>2009</u>	<u>2008</u>
Cost of inventories sold (excluding depreciation)	1,475,766	2,757,227
Depreciation of property, plant and equipment (Note 16)	135,860	98,614
Employee benefit expense (including directors' emoluments)		
- Wages and salaries	103,511	75,465
- Equity-settled share option expense	4,470	-
- Other social welfare	31,745	17,656
	<u>139,726</u>	<u>93,121</u>
Operating lease payment in respect of buildings	14,091	9,308
Auditors' remuneration	12,225	4,215
Impairment of accounts receivable (Note 27)	377	562
Commission for sale of properties	90,782	8,290
Advertising costs	46,317	51,169
Miscellaneous tax	43,180	31,538
Transportation fee	16,899	12,897
Office expense	7,472	3,546
Exhibition fees	11,137	5,324
Water and electricity	14,975	1,711
Financial advisory service expenses	21,030	9,506
Business entertainment expenses	8,702	7,331
Others	99,355	77,663
	<u>2,137,894</u>	<u>3,172,022</u>

8. FINANCE INCOME

	<u>2009</u>	<u>2008</u>
Interest income on bank deposits	15,766	16,727
Net foreign exchange gain	1,118	135,794
	<u>16,884</u>	<u>152,521</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

9. FINANCE COSTS

An analysis of finance costs is as follows:

	<u>2009</u>	<u>2008</u>
Interest expense:		
Interest on bank borrowings and other borrowings – wholly repayable within five years	301,490	298,908
Interest on bank borrowings and other borrowings – wholly repayable beyond five years	56,410	-
Interest on the guaranteed senior notes – wholly repayable within five years (Note 32)	111,494	140,915
Interest on CB2 – wholly repayable within five years (Note 35)	-	4,220
Interest on CB3 – wholly repayable within five years (Note 35)	8,708	100
Interest on CB4 – wholly repayable within five years (Note 35)	<u>25,392</u>	<u>-</u>
	503,494	444,143
Less: Amount capitalised in properties held or under development for sale, investment properties under construction and construction in progress	<u>(324,380)</u>	<u>(433,080)</u>
Finance costs	<u>179,114</u>	<u>11,063</u>

During the year ended 31 December 2009, the weighted average interest capitalisation rate was 7.03% (excluding CNTD and its subsidiaries which manage their financing separately from the other entities of the Group) (2008: 8.02%). The weighted average interest capitalisation rate of CNTD during the year ended 31 December 2009 was 9.97%.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

10. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

Name of director	2009			Total
	Salaries	Fees	Share-based payments (MSOP)*	
Executive directors				
- Mr. Shi Jian	1,750	-	-	1,750
- Mr. Li Yao Min	2,125	-	962	3,087
- Mr. Yu Hai Sheng	2,000	-	-	2,000
- Mr. Jiang Xu Dong	2,000	-	-	2,000
- Mr. Yue Wai Leung (appointed in 2009)	1,434	-	962	2,396
- Mr. Lee Wai Man**	846	-	-	846
Non-executive directors				
- Mr. Cheung Wing Yui	-	330	-	330
- Mr. Jin Bing Rong	-	330	-	330
Independent non-executive directors				
- Mr. Yeung Kwok Wing (resigned in 2009)	-	69	-	69
- Mr. Pan Long Qing (appointed in 2009)	-	210	-	210
- Mr. E Hock Yap	-	220	-	220
- Mr. Jiang Xie Fu	-	272	-	272
Total	10,155	1,431	1,924	13,510

Name of director	2008		
	Salaries	Fees	Total
Executive directors			
- Mr. Shi Jian	2,000	-	2,000
- Mr. Li Yao Min	1,500	-	1,500
- Mr. Yu Hai Sheng	2,500	-	2,500
- Mr. Jiang Xu Dong	2,000	-	2,000
- Mr. Lee Wai Man	2,200	-	2,200
Non-executive directors			
- Mr. Cheung Wing Yui	-	330	330
- Mr. Jin Bing Rong	-	315	315
Independent non-executive directors			
- Mr. Yeung Kwok Wing	-	165	165
- Mr. Geng Yu Xiu (resigned in 2008)	-	60	60
- Mr. E Hock Yap	-	220	220
- Mr. Jiang Xie Fu (appointed in 2008)	-	112	112
Total	10,200	1,202	11,402

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

10. DIRECTORS' REMUNERATION (continued)

- * On 5 July 2007, the Board of Directors of CNTD passed a resolution to award a total of 380 shares (equivalent to 28,500,000 shares after CNTD's share split) to certain CNTD's directors and employees ("Entitled Persons") as an incentive for their continued service to CNTD. Mr. Li Yao Min and Mr. Yue Wai Leung, who are also directors of CNTD, were each awarded 79 shares (equivalent to 5,925,000 shares after CNTD's share split), respectively. The terms of the CNTD's Management Stock Option Plan (the "MSOP") are detailed in Note 30(a).

The MSOP is provided on the basis that the relevant Entitled Persons remain in service within the CNTD Group on the vesting dates and he/she has not submitted a notice of resignation at those dates. The exercise price is RMB8 per share (before CNTD's share split). The MSOP is accounted for as a compensation for services to be provided by the Entitled Persons in the periods of service (the "vesting periods"). Since the shares granted do not vest until the Entitled Persons complete their services in the vesting periods, CNTD will recognise the expenses over the vesting periods.

Share-based payments in above table are expenses recognised during the period from 9 September 2009 to 31 December 2009, during which CNTD was deemed as a subsidiary of the Company.

- ** Mr. Lee Wai Man resigned as an executive director of the Company on 3 June 2009 and continued to act as Chief Financial Officer. His remuneration for the year was HK\$2,200 thousand (HK\$846 thousand when he was a director and HK\$1,354 thousand when he was Chief Financial Officer).

No discretionary bonuses, inducement fees, employer's contribution to pension schemes, or compensation for loss of office as directors were given to any of the directors during the years ended 31 December 2009 and 2008.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2009 and 2008.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five* (2008: four) directors, details of whose remuneration are set out in Note 10 above. Details of the remuneration of the remaining two non-director* (2008: one), highest paid employees for the year are as follows:

	<u>2009</u>	<u>2008</u>
Salaries, housing allowances, other allowances and benefits in kind	<u>4,616</u>	<u>2,000</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

11. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	<u>2009</u>	<u>2008</u>
Nil - HK\$1,000,000	-	-
HK\$1,000,001 - HK\$1,500,000	-	-
HK\$1,500,001 - HK\$2,000,000	1	1
HK\$2,000,001 - HK\$3,000,000	<u>1</u>	<u>-</u>

* Remuneration to Mr. Yu Hai Sheng, Mr. Jiang Xu Dong and a non-director employee who also ranked the fifth highest paid employees was the same in 2009.

12. INCOME TAX

	<u>2009</u>	<u>2008</u>
Current taxation		
- Mainland China income tax (a)	210,417	258,230
- Mainland China LAT (c)	<u>54,947</u>	<u>31,827</u>
	<u>265,364</u>	<u>290,057</u>
Deferred taxation (Note 34)		
- Mainland China income tax	139,967	329,456
- Mainland China LAT	-	91,161
- Mainland China withholding tax (d)	<u>101,331</u>	<u>182,797</u>
	<u>241,298</u>	<u>603,414</u>
Total tax charge for the year	<u>506,662</u>	<u>893,471</u>

(a) Mainland China income tax

The Group conducts a significant portion 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, except for certain subsidiaries of the Group, in Mainland China, which are taxed at preferential rates of 20%.

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. The outstanding balance of prepaid income tax was approximately HK\$57 million as of 31 December 2009 (2008: Nil).

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

12. INCOME TAX (continued)

(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 year.

(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 2% on proceeds of the sale and pre-sale of properties. Prepaid LAT had been recorded in "prepaid income tax" with an amount of approximately HK\$26.82 million as of 31 December 2009 (2008: approximately HK\$5.3 million).

(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.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

12. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate of 25% for the jurisdiction in which the majority of the Company's subsidiaries are domiciled to the tax expense at the Group's effective tax rate is as follows:

	<u>2009</u>	<u>2008</u>
Profit before tax	1,524,444	1,677,332
Tax at the applicable tax rate of 25%	381,111	419,333
Lower tax rates for certain subsidiaries	(1,605)	-
Tax effect of results attributable to associates	23,482	110,797
Impact of LAT (which is itself classified as part of income tax) as it is deductible for income tax purposes	(13,736)	(30,747)
Income not subject to tax	(140,399)	(9,007)
Tax losses not recognised and expenses not deductible for tax	83,622	97,310
Effect of withholding tax at 10% or 5% on the distributable profits of the Group's subsidiaries in Mainland China	101,331	182,797
Tax on gains on disposal of subsidiaries	17,909	-
Mainland China income tax	451,715	770,483
Mainland China LAT (including deferred LAT)	54,947	122,988
Total tax expense for the year at the Group's effective tax rate	<u>506,662</u>	<u>893,471</u>

The share of tax attributable to associates amounting to approximately HK\$0.5 million (2008: HK\$54.7 million) is included in "share of profits and losses of associates" on the face of the consolidated statement of comprehensive income.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of HK\$240,281 thousand (2008: HK\$4,069 thousand) which has been dealt with in the financial statements of the Company (Note 30(b)).

14. DIVIDENDS PAID AND PROPOSED

	<u>2009</u>	<u>2008</u>
Proposed final dividend – HK\$0.044 (2008: Nil) per ordinary share	158,571	-

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

14. DIVIDENDS PAID AND PROPOSED (continued)

A final dividend in respect of 2009 of HK\$0.044 per share was proposed at the meeting of Board of Directors held on 16 April 2010. Based on the total number of outstanding ordinary shares of 3,603,881,194 shares, the proposed dividends amounting to approximately HK\$158,571 thousand. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in these financial statements.

There was no dividend paid during the year (2008: HK\$0.035 per share).

Pursuant to a resolution passed at the general meeting on 21 May 2008, the Company offered to its shareholders scrip dividends in respect of 2007 of equivalent to HK\$0.035 per share with an alternative for its shareholders to elect to receive the dividends in cash in lieu of all or part of their scrip dividend entitlements. As of 16 June 2008 (the date that the shareholders were required to elect alternatives), shareholders holding a total of 1,401,453,570 shares elected for cash dividend and cash dividends of approximately HK\$49,050,875 were paid, while shareholders holding a total of 1,336,390,551 shares elected for scrip dividends, resulting in 46,037,076 shares being allotted at the price of HK\$1.016 per share (Note 29).

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, assuming conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: convertible bonds (Note 35). The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense and changes in fair value of separated derivatives embedded in the convertible bonds less any tax effect.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<u>2009</u>	<u>2008</u>
<u>Earnings</u>		
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	785,081	247,936
Fair value change on the derivative component of CB3, net of tax (Note 35)	-	(7,240)
Interest expenses recognised on the host debt component of convertible bonds, net of tax (Note 9)	<u>25,392</u>	<u>100</u>
Profit attributable to ordinary equity holders of the parent before the above impact arising from convertible bonds	<u>810,473</u>	<u>240,796</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

15. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

Shares	Number of shares	
	2009 (Thousand units)	2008 (Thousand units)
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	3,207,690	2,783,881
Effect of dilution – weighted average number of ordinary shares:		
Convertible bonds	211,694	2,466
	<u>3,419,384</u>	<u>2,786,347</u>

16. PROPERTY, PLANT AND EQUIPMENT GROUP

	2009						Total
	Buildings	Golf operational assets	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	
Cost							
Beginning of year	1,083,612	-	2,813	729,815	43,038	-	1,859,278
Acquisition of subsidiaries (Note 45)	917,578	707,989	-	66,516	44,398	197,102	1,933,583
Additions	3,491	269	-	8,580	25,617	(7,511)	30,446
Transfer	116	-	-	-	-	(27,601)	(27,485)
Disposal of subsidiaries (Note 46)	(227,165)	-	-	(160,624)	(6,167)	-	(393,956)
Other disposals	-	-	(1,113)	(1,708)	(4,397)	-	(7,218)
Exchange realignment	2,455	643	4	1,153	123	151	4,529
End of year	<u>1,780,087</u>	<u>708,901</u>	<u>1,704</u>	<u>643,732</u>	<u>102,612</u>	<u>162,141</u>	<u>3,399,177</u>
Accumulated depreciation and impairment							
Beginning of year	60,492	-	1,155	109,741	19,621	-	191,009
Acquisition of subsidiaries (Note 45)	319,413	81,454	-	38,196	25,365	-	464,428
Depreciation charge (Note 7)	52,177	6,501	90	66,221	10,871	-	135,860
Disposal of subsidiaries (Note 46)	(48,264)	-	-	(21,134)	(2,292)	-	(71,690)
Other disposals	-	-	(1,002)	(1,133)	(3,212)	-	(5,347)
Exchange realignment	404	79	1	252	60	-	796
End of year	<u>384,222</u>	<u>88,034</u>	<u>244</u>	<u>192,143</u>	<u>50,413</u>	<u>-</u>	<u>715,056</u>
Net carrying amount							
Balance, end of year	<u>1,395,865</u>	<u>620,867</u>	<u>1,460</u>	<u>451,589</u>	<u>52,199</u>	<u>162,141</u>	<u>2,684,121</u>
Balance, beginning of year	<u>1,023,120</u>	<u>-</u>	<u>1,658</u>	<u>620,074</u>	<u>23,417</u>	<u>-</u>	<u>1,668,269</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT (continued)
GROUP

	2008					Total
	Buildings	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Construction in progress	
<u>Cost</u>						
Beginning of year	752,607	2,650	537,405	39,980	151,240	1,483,882
Additions	57,083	-	8,768	6,661	215,623	288,135
Transfer	224,918	-	149,883	-	(374,801)	-
Disposals	-	-	(3,646)	(6,508)	-	(10,154)
Exchange realignment	49,004	163	37,405	2,905	7,938	97,415
End of year	<u>1,083,612</u>	<u>2,813</u>	<u>729,815</u>	<u>43,038</u>	<u>-</u>	<u>1,859,278</u>
<u>Accumulated depreciation and impairment</u>						
Beginning of year	9,878	943	26,899	16,206	-	53,926
Depreciation charge (Note 7)	24,062	153	68,152	6,247	-	98,614
Impairment (Note 6)	25,730	-	13,097	-	-	38,827
Disposals	-	-	(1,203)	(3,755)	-	(4,958)
Exchange realignment	822	59	2,796	923	-	4,600
End of year	<u>60,492</u>	<u>1,155</u>	<u>109,741</u>	<u>19,621</u>	<u>-</u>	<u>191,009</u>
<u>Net carrying amount</u>						
Balance, end of year	<u>1,023,120</u>	<u>1,658</u>	<u>620,074</u>	<u>23,417</u>	<u>-</u>	<u>1,668,269</u>
Balance, beginning of year	<u>742,729</u>	<u>1,707</u>	<u>510,506</u>	<u>23,774</u>	<u>151,240</u>	<u>1,429,956</u>

Depreciation expenses of approximately HK\$118,164 thousand (2008: approximately HK\$87,760 thousand) had been expensed in cost of goods sold, approximately HK\$2,520 thousand (2008: approximately HK\$1,418 thousand) in selling and marketing costs and approximately HK\$15,176 thousand (2008: approximately HK\$9,436 thousand) in administrative expenses.

As of 31 December 2009, the buildings, including "Skyway Hotel" with a net carrying amount of HK\$806,860 thousand (2008: HK\$ 824,187 thousand) and the Crown Plaza Lake Meilan Shanghai Hotel and Lake Meilan Convention Center of CNTD with a net carrying amount of HK\$589,005 thousand were pledged as collateral for the Group's bank loans and facilities (Note 31).

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT (continued)

GROUP

Impairment of property, plant and equipment

Due to the economic downturn and operating losses in hotel operations in 2008, the Group performed an impairment assessment on the property, plant and equipment used in the Shenyang Richgate Lexington hotel operations, and as a result, an impairment loss of HK\$38,827 thousand was recognised. With the disposal of the subsidiary owning Shenyang Richgate Lexington Hotel, the impairment losses were disposed of.

COMPANY

	2009			
	Leasehold improvements	Furniture, fitting, fixtures and office equipment	Motor vehicles	Total
<u>Cost</u>				
Beginning of year	1,102	649	-	1,751
Additions	-	80	3,281	3,361
Disposals	(1,113)	(132)	-	(1,245)
Exchange realignment	11	(9)	3	5
End of year	-	588	3,284	3,872
<u>Accumulated depreciation</u>				
Beginning of year	951	518	-	1,469
Depreciation charge	-	45	246	291
Disposals	(1,002)	(117)	-	(1,119)
Exchange realignment	51	(49)	-	2
End of year	-	397	246	643
<u>Net carrying amount</u>				
Balance, end of year	-	191	3,038	3,229
Balance, beginning of year	151	131	-	282

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

16. PROPERTY, PLANT AND EQUIPMENT (continued)

COMPANY

	2008		Total
	Leasehold improvements	Furniture, fitting, fixtures and office equipment	
<u>Cost</u>			
Beginning of year	1,047	646	1,693
Exchange realignment	55	3	58
End of year	1,102	649	1,751
<u>Accumulated depreciation</u>			
Beginning of year	943	478	1,421
Depreciation charge	-	36	36
Exchange realignment	8	4	12
End of year	951	518	1,469
<u>Net carrying amount</u>			
Balance, end of year	151	131	282
Balance, beginning of year	104	168	272

17. INVESTMENT PROPERTIES

GROUP

Completed investment properties

	2009	2008
At beginning of year	5,248,073	1,842,375
Transfer from investment properties under construction	-	1,028,699
Transfer from properties held or under development for sale	-	593,571
Transfer from prepaid land lease payments (Note 18)	-	246,126
Fair value gain (Note 6)	476,754	1,394,587
Addition in cost	53,772	-
Disposal	(7,647)	-
Acquisition of a subsidiary (Note 45)	549,189	-
Exchange realignment	9,259	142,715
At end of year	6,329,400	5,248,073

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

17. INVESTMENT PROPERTIES (continued)

GROUP

Investment properties under construction

	<u>2009</u>	<u>2008</u>
At beginning of year	-	880,124
Acquisition of a subsidiary (Note 45)	126,914	-
Additions	67,389	102,377
Transfers to completed investment properties	-	(1,028,699)
Fair value loss (Note 6)	(592)	-
Exchange realignment	<u>168</u>	<u>46,198</u>
At end of year	<u>193,879</u>	<u>-</u>

The completed investment properties as at 31 December 2009 mainly represent the properties as follows:

A 3-storey shopping mall at the town area of Shanghai City, with a fair value of approximately HK\$1,180 million. The periods of operating leases entered into for the shopping mall range from 1 to 6 years.

Portions of 8 blocks of multi-storey shopping and office buildings at the town area of Shanghai City, with a total fair value of approximately HK\$1,251 million. The periods of operating leases entered into range from 1 to 12 years.

A 7-storey shopping mall at the town area of Shenyang City, with a total fair value of approximately HK\$3,305 million. The periods of operating leases entered into for the shopping mall range from 1 to 16 years.

A retail street in Shanghai with a fair value of approximately HK\$477 million. The periods of operating leases are mainly one year.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

17. INVESTMENT PROPERTIES (continued)

A retail street in Wuxi with a fair value of approximately HK\$78 million. The periods of operating leases are mainly one year.

As at 31 December 2009, the Group's completed investment properties were valued by Jones Lang Lasalle Sallmanns Limited ("JLL") and Debenham Tie Leung Limited ("DTZ"), independent professionally qualified valuers. As there is no active market for the said properties, and due to the absence of similar properties in the same location and condition, the valuations were performed based on the income approach (term and reversion method or discounted cash flow method). The following main inputs have been used.

	<u>2009</u>	<u>2008</u>
Yield		
Shanghai Oasis Middling Centre	6.5% - 6.8%	5.9% - 6.9%
Shanghai Richgate Shopping Mall	5% - 6%	5% - 6.5%
Shenyang Richgate Shopping Mall	5% - 6%	*
Scandinavia Street, Shanghai	9% - 10%	9% - 10.5%
Wu Culture Street, Wuxi	4% - 5%	4% - 5%

* The fair value of Shenyang Richgate Shopping Mall as of 31 December 2008 was estimated using discounted cash flow method. The discount rate used was 9.5%. As the occupancy rate of Shenyang Richgate Shopping Mall was improved in 2009, the term and reversion method was adopted to estimate the fair value as of 31 December 2009. The yield rates were estimated to be ranging from 5% to 6%.

In arriving at the fair value of the investment properties under construction, reference is made to the comparable sales evidence available in a relevant market, after taking into account the expended construction costs and the costs that will be expended to complete the development.

The Group's interests in completed investment properties and investment properties under construction at their net book values are analysed as follows:

	<u>2009</u>	<u>2008</u>
In Mainland China, held on:		
Leases of over 50 years	1,202,109	1,151,103
Leases of between 10 and 50 years	<u>5,321,170</u>	<u>4,096,970</u>
	<u>6,523,279</u>	<u>5,248,073</u>

The investment properties pledged for bank borrowings are disclosed in Note 31.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

17. INVESTMENT PROPERTIES (continued)

The following amounts relating to the investment properties have been recognised in profit or loss:

	<u>2009</u>	<u>2008</u>
Rental income (Note 5)	120,612	72,939
Direct operating expenses arising from investment properties that generate rental income	<u>(50,245)</u>	<u>(24,873)</u>
Rental income on investment properties less direct operating expenses	<u>70,367</u>	<u>48,066</u>

18. PREPAID LAND LEASE PAYMENTS

GROUP

	<u>2009</u>	<u>2008</u>
In Mainland China, held on:		
- Leases of over 50 years	4,368,784	3,505,965
- Leases of between 10 and 50 years	<u>4,151,162</u>	<u>4,034,213</u>
	<u>8,519,946</u>	<u>7,540,178</u>

The Group's interests in leasehold land represent prepaid operating lease payments and their net book values are analysed as follows:

	<u>2009</u>	<u>2008</u>
At beginning of year	7,540,178	6,663,010
Additions	1,395,832	1,032,067
Acquisition of subsidiaries (Note 45)	690,137	199,439
Disposals with the sale of completed properties	(92,222)	(324,232)
Amortisation capitalised as properties under development for sale	(178,738)	(199,426)
Transfer to investment properties (Note 17)	-	(246,126)
Disposal of subsidiaries (Note 46)	(843,871)	-
Amortisation	(4,204)	(3,141)
Exchange realignment	<u>12,834</u>	<u>418,587</u>
At end of year	<u>8,519,946</u>	<u>7,540,178</u>
Analysed as:		
Non-current: In relation to properties classified under property, plant and equipment	565,492	885,914
Current: In relation to properties held or under development for sale	<u>7,954,454</u>	<u>6,654,264</u>
	<u>8,519,946</u>	<u>7,540,178</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

18. PREPAID LAND LEASE PAYMENTS (continued)

GROUP

As of 31 December 2009, the Group's leasehold land of approximately HK\$2,404 million (2008: HK\$2,263 million) had been pledged as collateral for the Group's bank loans and facilities (Note 31).

19. GOODWILL

GROUP

	<u>2009</u>	<u>2008</u>
<u>Cost</u>		
At beginning of year	447,495	422,627
Acquisition of a subsidiary (Note 45)	5,582	-
Exchange realignment	711	24,868
At end of year	<u>453,788</u>	<u>447,495</u>
<u>Accumulated impairment</u>		
At beginning and end of year	<u>-</u>	<u>-</u>
<u>Net carrying amount</u>		
Balance, end of year	<u>453,788</u>	<u>447,495</u>
Balance, beginning of year	<u>447,495</u>	<u>422,627</u>

Impairment testing of goodwill

Goodwill acquired through certain business combinations has been mainly allocated to two major cash-generating-units, the Albany Oasis Garden and the Richgate II (formerly known as Qinhai Oasis Garden) property development projects, for impairment testing:

The two cash-generating units are parcels of lands with properties currently under development and located in the cities of Shenyang and Shanghai, respectively, and will be available for sale in the forthcoming one to eight years.

The recoverable amounts for both the Albany Oasis Garden and Richgate II property development projects cash-generating units have been determined based on a value-in-use calculation using cash flow projections based on forecasts covering a eight-year and five-year, respectively, approved by management. The pre-tax discount rates applied to the cash flow projections are 19.13% and 13.2%, respectively, and the cash flow for period beyond the five-year period is consistent with the real estate industry market indices. Professional valuers were engaged to assist the Group in determining the estimated value in use.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

19. GOODWILL (continued)

Impairment testing of goodwill (continued)

The carrying amount of goodwill allocated to each of the two major cash-generating units is as follows:

	<u>2009</u>	<u>2008</u>
Albany Oasis Garden property development project	359,628	359,058
Richgate II property development project	<u>86,162</u>	<u>86,026</u>

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Selling prices – The market prices of comparable properties nearby
- Construction costs – The estimated costs including infrastructure costs to complete the property development projects
- Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant cash-generating units.
- Price inflation – The basis used to determine the value assigned to selling price inflation is the forecast price indices of 3%-4%, which is consistent with industry trends.

The values assigned to key assumptions are based on historical experiences, current market condition, approved budgets and forecasts and consistent with external information sources.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES

(a) Investments in subsidiaries

COMPANY

	<u>2009</u>	<u>2008</u>
Unlisted equity interests, at cost	<u>4,433,839</u>	<u>4,565,875</u>

The following is a list of the principal subsidiaries as at 31 December 2009:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2009	2008			
Shanghai Xin Dong Industry Co., Ltd. ("Xin Dong")	PRC 28 May 1993	98%	98%	US\$3,457,729	US\$3,457,729	Property leasing and real estate agency
Shanghai Real Estate Property Management Co., Ltd. ("Shangzhi Property Management")	PRC 1 September 1995	98.57%	98.57%	RMB5,000,000	RMB5,000,000	Property management
Shanghai Oasis Garden Real Estate Co., Ltd. ("Oasis Garden")	PRC 29 September 1998	98.75%	98.75%	US\$19,600,000	US\$19,600,000	Property development
Shanghai Wingo Infrastructure Co., Ltd. ("Wingo Infrastructure")	PRC 4 August 1999	98.96%	98.96%	US\$20,000,000	US\$20,000,000	Development of technology for housing and provision of construction services
Shanghai Zhufu Property Development Co., Ltd. ("Zhufu")	PRC 11 August 2000	50.36%	50.36%	RMB10,000,000	RMB10,000,000	Property development
Anderson Land (Shanghai) Ltd. ("Anderson Shanghai")	British Virgin Islands ("BVI") 29 September 2001	52%	52%	US\$100	US\$100	Investment holding
Shanghai Anderson Fuxing Land Co., Ltd. ("Anderson Fuxing")	PRC 16 April 2002	51.48%	51.48%	US\$20,000,000	US\$20,000,000	Property development
Shanghai Hangtuo Govern Real Estate Co., Ltd. ("Hangtuo Govern")	PRC 14 June 2002	98%	98%	US\$10,000,000	US\$10,000,000	Property development
Shanghai Jinwu Real Estate Co., Ltd. ("Shanghai Jinwu")	PRC 12 August 2002	96.80%	96.80%	US\$54,962,000	US\$54,962,000	Property development
Shanghai Jinxin Real Estate Co., Ltd. ("Jinxin")	PRC 28 October 2002	100%	100%	RMB700,000,000	RMB700,000,000	Property development
Shanghai Skyway Hotel Co., Ltd. ("Skyway")	PRC 9 December 2002	56%	56%	RMB200,000,000	RMB200,000,000	Hotel operations

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES
(continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2009	2008			
Shenyang Huarui Shiji Investment Development Limited ("Huarui Shiji Investment") (i)	PRC 22 December 2004	-	51%	US\$30,123,800	US\$30,123,800	Property development
Shenyang Huarui Shiji Asset Management Co., Ltd. ("Huarui Asset Management") (ii)	PRC 30 October 2007	51%	51%	US\$31,936,200	US\$31,936,200	Property development
Shenyang Huajian Real Estate Co., Ltd. ("Shenyang Huajian")	PRC 3 November 2006	100%	100%	US\$45,000,000	US\$45,000,000	Property development
Shanghai Shuo Cheng Real Estate Co., Ltd. ("Shuo Cheng")	PRC 29 January 2003	100%	100%	RMB450,000,000	RMB450,000,000	Property development
Shanghai Liangshi Enterprises Ltd. ("Liangshi")	PRC 24 May 2006	50.36%	50.36%	RMB1,000,000	RMB1,000,000	Property development
Shanghai Shangzhi Real Estate Development Co., Ltd. ("Shangzhi Real Estate")	PRC 16 October 2008	49.86%	49.86%	RMB10,000,000	RMB10,000,000	Property development
Liaoning Gao Xiao Support Group Property Development Co., Ltd. ("Liaoning Gao Xiao") (iii)	PRC 4 December 2000	70%	70%	RMB639,500,000	RMB750,000,000	Property development
Haikou Century Harbour City Co., Ltd. ("Haikou Century")	PRC 25 June 2008	79%	79%	RMB296,000,000	RMB320,000,000	Property development
Shenyang Lukang Real Estate Ltd. ("Lukang")	PRC 13 July 2007	98.95%	100%	US\$31,250,000	US\$31,250,000	Property development
Shenyang Richgate Lexington Hotel Management Co., Ltd. ("Lexington Hotel")	PRC 25 December 2007	-	51%	US\$120,000	US\$120,000	Hotel operations
Haikou Century Richgate Business Administration Co., Ltd. ("Haikou Century Administration")	PRC 20 October 2008	100%	100%	US\$300,000	US\$300,000	Hotel administration
Shanghai Lushan Real Estate Ltd. ("Lushan") (iv)	PRC 4 August 2004	27.70%	-	RMB11,110,000	RMB11,110,000	Property development
Shanghai Xiangdao Real Estate Ltd. ("Xiangdao") (v)	PRC 21 July 2009	98.75%	-	RMB200,000,000	RMB200,000,000	Property development
China New Town Development Company Limited ("CNID") (v)	BVI 4 January 2006	50.07%	-*	RMB2,497,385,135	10 billion shares (No par)	Land infrastructure development

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES
(continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2009	2008			
SGLD (v)	PRC 26 September 2002	36.37%	-*	RMB548,100,000	RMB548,100,000	Land infrastructure development
Shanghai Lake Malaren Golf Club Co., Ltd. (v)	PRC 6 July 2004	34.55%	-*	RMB5,000,000	RMB5,000,000	Golf management
Shanghai Lake Malaren Property Management Co., Ltd. (v)	PRC 23 June 2005	35.49%	-*	RMB5,000,000	RMB5,000,000	Property management
Shanghai Junyihui Entertainment Co., Ltd. (v)	PRC 28 July 2005	36.37%	-*	RMB1,680,000	RMB1,680,000	Entertainment services provider
Shanghai Jia Tong Enterprises Co., Ltd. (v)	PRC 12 April 2006	50.07%	-*	RMB1,000,000	RMB1,000,000	Provision of consultation services and property management
Shanghai Lake Malaren Hotel Management Co., Ltd. (v)	PRC 25 April 2006	36.37%	-*	RMB5,000,000	RMB5,000,000	Hotel and club management
Shanghai Golden Luodian Infrastructure Development Co., Ltd. (v)	PRC 16 March 2009	36.32%	-*	RMB5,000,000	RMB5,000,000	Construction of transportation hub and real estate development
Shanghai Malaren Tourism Development Co., Ltd. (v)	PRC 29 December 2009	32.73%	-*	RMB3,000,000	RMB3,000,000	Provision of travelling information and wedding etiquette services
Wuxi Hongshan New Town Development Co., Ltd. (v)	PRC 6 March 2007	45.06%	-*	RMB192,689,000	RMB192,689,000	Real estate development and management
Shenyang Lixiang New Town Development Co., Ltd. (v)	PRC 6 March 2007	45.06%	-*	RMB747,677,000	RMB747,667,000	Real estate development and management
Shanghai CNTD Management Consulting Co., Ltd. (v)	PRC 21 June 2007	50.07%	-*	RMB1,513,000	RMB1,513,000	Enterprise investment consultation
Wuxi Hongshan New Town Virescence Environmental Protection Construction Co., Ltd. (v)	PRC 17 August 2007	45.06%	-*	RMB372,204,000	RMB372,204,000	Planting, maintenance and management of scenic spots in the Wuxi Project
Changchun New Town Automobile Industry Construct Co., Ltd. (v)	PRC 15 November 2007	40.06%	-*	RMB220,267,000	RMB220,267,000	Land infrastructure development

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES
(continued)

(a) Investments in subsidiaries (continued)

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2009	2008			
Shenyang Lake Malaren Country Club Co., Ltd. (v)	PRC 6 March 2008	50.07%	-*	RMB17,704,000	RMB17,704,000	Sports management
Shenyang Meteorite Park Tourism Development Co., Ltd. (v)	PRC 13 March 2008	50.07%	-*	RMB351,150,000	RMB351,150,000	Landscaping, and plant maintenance and management of scenic spots
Wuxi Hongshan New Town Commercial Operation and Management Co., Ltd. (v)	PRC 18 March 2008	45.06%	-*	RMB1,000,000	RMB1,000,000	Business management

* CNTD was deemed as a subsidiary of the Company since 9 September 2009.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Other than disclosed above, the Company has several investment holding subsidiaries incorporated in the BVI with nominal issued shares. All subsidiaries located in Mainland China are limited liability entities.

The major transactions relating to the interests in subsidiaries are as follows:

- (i) On 23 November 2009, the Company, through an indirect subsidiary, entered into a share sale agreement with a third party, pursuant to which the Company agreed to sell its 51% equity interest in Huarui Shiji Investment for a total consideration of HK\$150 million, whereby HK\$10 million need to be paid within 20 days from the date of Agreement (which was received subsequent to 31 December 2009) and the remaining balance to be paid within 6 months after the completion of the share transfer. The registration of the share transfer was completed on 30 November 2009.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES
(continued)

(a) Investments in subsidiaries (continued)

- (ii) On 24 July 2009, the board of directors of Huarui Asset Management passed a resolution to split Huarui Asset Management into two companies (the “De-merger”) whereby certain portions of the assets (mainly comprising Lexington Hotel), liabilities and US\$440,000 of the paid-up capital of Huarui Asset Management were to be injected into a newly set up company, i.e., Shenyang Huarui New Century Hotel Management Co., Ltd. (“New Century Hotel Management”), which is to be held by the existing shareholders of Huarui Asset Management, based on their existing proportion of equity interests in Huarui Asset Management. The combined assets, liabilities, paid-up capital and equity of Huarui Asset Management and New Century Hotel Management remained unchanged before and after the de-merger. The de-merger was completed and New Century Hotel Management was formally established on 27 October 2009.

On 27 November 2009, the Company, through an indirect subsidiary, entered into a share sale agreement with a third party, pursuant to which the Company agreed to sell its 51% equity interest in New Century Hotel Management for a total consideration of HK\$150 million, whereby HK\$10 million (which was received subsequent to 31 December 2009) need to be paid within 20 days from the date of agreement and the remaining balance to be paid within 6 months after the completion of the share transfer. The registration of the share transfer was completed on 3 December 2009.

- (iii) On 28 October 2009, Konmen, a wholly-owned subsidiary of the Company, entered into the Goldjoy Acquisition Agreement with Mr. Ng Chi Ming Ken (“Goldjoy Vendor”), pursuant to which Goldjoy Vendor conditionally agreed to sell, and Konmen conditionally agreed to purchase, the entire issued capital of Goldjoy Investment Limited (“Goldjoy”) and an interest-free shareholder’s loan of Goldjoy of HK\$38.96 million, for a total consideration of HK\$750,000,000. HK\$250 million, being the deposit and the partial payment, are to be paid in cash upon signing the Goldjoy Acquisition Agreement subject to fulfilment of certain conditions and the balance of HK\$500 million will be satisfied by the issue of a promissory note by the Company upon completion which the Company has promised to pay the Goldjoy Vendor on or before 28 October 2011. Goldjoy holds a 20% equity interest in Liaoning Gao Xiao, a 70% owned subsidiary of the Company.

The transaction has been approved by the Special General Meeting of the Company on 4 December 2009. As at 31 December 2009, the deposit has not been paid and the transaction has not been completed because not all the conditions precedent have been met.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES
(continued)

(a) Investments in subsidiaries (continued)

(iv) On 23 September 2009, Zhufu, a 50.36% owned subsidiary of the Company, entered into a capital injection agreement with the two existing shareholders of Lushan, holding 90% and 10% of equity interests in Lushan. Lushan's registered capital was RMB5 million before the capital injection. Under the agreement, Zhufu will inject RMB41.95 million into Lushan and hold a 55% equity interest in Lushan after the capital injection. The capital injection by Zhufu was completed in December 2009. The details of the business combination are disclosed in Note 45.

(v) CNTD was a 32.03% owned associate of the Company as of 31 December 2008 and changes in the Company's indirect shareholding in CNTD for the year were as follows:

On 5 May 2009, Sinopower, a wholly-owned subsidiary of the Company, entered into a subscription agreement to subscribe 680,000,000 shares of CNTD at the subscription price of S\$0.051 per CNTD share. The subscription shares were allotted to Sinopower on 15 May 2009. This share subscription transaction resulted in an increase in the Sinopower's ownership percentage of CNTD from 32.03% to 49.24% at the completion date. Sinopower's equity interest in CNTD was subsequently diluted from 49.24% to approximately 49.19% as a result of 2,977,500 new shares issued by CNTD to its directors and executives upon the exercise of share options under CNTD's Management Stock Option Plan by its directors and executives in May 2009.

On 28 July 2009, Sinopower entered into (a) a Share Subscription Agreement (the "Sinopowe Share Subscription Agreement") with CNTD, pursuant to which Sinopower has conditionally agreed to subscribe for up to 293,795,512 subscription shares at the subscription price of S\$0.07872 per CNTD share, if CNTD issued some new shares to the holders of CNTD's guaranteed senior notes to settle the notes; so that Sinopower's shareholding in CNTD will maintain at 49.19% before and after the settlement of CNTD's guaranteed senior notes; and (b) a Convertible Bond Subscription Agreement with CNTD, pursuant to which Sinopower has conditionally agreed to subscribe for a convertible bond issued by CNTD.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

20. INVESTMENTS IN SUBSIDIARIES AND ADVANCES TO SUBSIDIARIES
(continued)

(a) Investments in subsidiaries (continued)

(v) (continued)

On 9 September 2009, CNTD allotted 222,295,064 CNTD shares to Sinopower and issued RMB275,994,230 in principal amount of convertible bond ("CNTD CB") pursuant to the Convertible Bond Subscription Agreement to Sinopower. Upon completion of those transactions, the Company continued to hold an equity interest of approximately 49.19% in CNTD, plus the CNTD CB that can be converted to shares of CNTD at any time. Upon conversion of the CNTD CB, Sinopower's shareholding in CNTD will exceed 50%.

As a result of the repurchases by CNTD of its 55,168,000 shares during the period from 11 December 2009 to 29 December 2009, the Company's indirect shareholding interest in CNTD has increased from approximately 49.19% to approximately 50.07% as of 31 December 2009.

For purpose of the preparation of these financial statements, CNTD was deemed as a subsidiary of the Company from 9 September 2009. The Group's previously held equity interest in CNTD was remeasured at fair value based on the quoted price of CNTD shares on the date of acquisition and a loss of HK\$184,398 thousand was charged to profit or loss.

- (vi) Xiangdao was established under the laws of the PRC on 21 July 2009 with a registered capital of RMB200 million. Xiangdao is owned as to 98.75% by the Group.

(b) Advances to subsidiaries

COMPANY

All the advances to subsidiaries are unsecured and have no fixed repayment terms. Other than an advance amounting to approximately HK\$73.7 million (2008: HK\$73.7 million) to Anderson Shanghai which earns interest at 3% (2008: 3%) per annum and a US\$4.5 million loan to Huarui Asset Management which earns interest at the prevailing London Interbank Offered Rate per annum, the advances to other subsidiaries were interest-free.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

21. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES

(a) Interests in associates

GROUP

	<u>2009</u>	<u>2008</u>
Share of net assets	87,807	634,722
Less: Provision for impairment	-	(104,320)
	<u>87,807</u>	<u>530,402</u>
Market value of listed shares	<u>-</u>	<u>114,354</u>

Particulars of the Group's associates as at 31 December 2009 are set out below:

Name	Place and date of incorporation or establishment	Percentage of equity interest attributable to the Group		Issued and paid-up capital	Authorised share capital	Principal activities
		2009	2008			
Shanghai Housing Industry New Technology Development Co., Ltd. ("New Technology")	PRC 6 May 1997	26%	26%	RMB100,000,000	RMB100,000,000	Research and development of housing technology
Shanghai Orda Opto-electronics Science and Technology Co., Ltd. ("Orda")	PRC 23 March 2000	23.52%	23.52%	RMB11,000,000	RMB11,000,000	Development and sale of photo electronic products, computer hardware and software
Shanghai Telecom Broadband Networking Co., Ltd. ("Broadband")	PRC 24 October 2000	39.59%	39.59%	RMB50,000,000	RMB50,000,000	Development and sale of network and construction of broadband fibre projects
China New Town Development Company Limited ("CNTD")	BVI 4 January 2006	-*	32.03%	RMB2,497,385,135	10 billion shares (No par)	Land infrastructure development
Shanghai Malaren Lake Artwork Exhibition Co., Ltd.	PRC 25 April 2006	7.28%*	-	RMB1,000,000	RMB1,000,000	Artwork exhibition

* Please refer to Note 20(a)(v) for the changes in the Company's interests in CNTD during the year. CNTD was deemed as a subsidiary of the Company on 9 September 2009. As a result, since then, CNTD's associate became an associate of the Company.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group.

The year end of the financial statements of the above associates are coterminous with those of the Group. The consolidated financial statements are adjusted for the transactions between CNTD and group companies for the period from 1 January to 9 September 2009 (date when it was deemed as a subsidiary of the Group) to the extent of the Company's interests in the associates.

The Group's shareholdings in the associates all comprise equity shares held through certain wholly-owned subsidiaries and non-wholly-owned subsidiaries of the Company. All the above associates have been accounted for using the equity method in these financial statements.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

21. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES
(continued)

(a) Interests in associates (continued)

Extracts of financial information of principal associates

The following tables illustrate the financial information of the Group's principal associates as extracted from their financial statements:

(1) CNTD

		<u>2008</u>
Assets and liabilities in the consolidated financial statements of CNTD and its subsidiaries		
Current assets		4,515,600
Non-current assets		2,741,597
Current liabilities		(3,644,532)
Non-current liabilities		<u>(1,258,617)</u>
Net assets		<u>2,354,048</u>
Attributable to:		
Non-controlling interests		407,190
Owners of CNTD		<u>1,946,858</u>
		<u>2,354,048</u>
	1 January to 9 September 2009 (date ceased to be an associate)	<u>2008</u>
Results		
Revenue and other income	365,273	652,192
Total expense	(413,897)	(1,925,953)
Income tax credit	<u>1,628</u>	<u>164,005</u>
Losses after tax	<u>(46,996)</u>	<u>(1,109,756)</u>
Attributable to:		
Non-controlling interests	(8,686)	(159,387)
Owners of CNTD	<u>(38,310)</u>	<u>(950,369)</u>
	<u>(46,996)</u>	<u>(1,109,756)</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

21. INTERESTS IN ASSOCIATES AND AMOUNTS DUE FROM ASSOCIATES
(continued)

(a) Interests in associates (continued)

(2) Broadband

	<u>2009</u>	<u>2008</u>
Assets	205,911	216,177
Liabilities	(60,741)	(89,407)
Revenue	139,478	139,285
Profit after tax	<u>39,487</u>	<u>26,996</u>

(3) New Technology

	<u>2009</u>	<u>2008</u>
Assets	120,239	119,240
Liabilities	(6,732)	(7,155)
Revenue	2,179	10,870
Profit after tax	<u>1,243</u>	<u>4,712</u>

(b) Amounts due from associates

	<u>Group</u>		<u>Company</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Amounts due from:				
- CNTD	-	132,438	-	132,438
- Broadband	<u>1,825</u>	<u>6,530</u>	-	-
	<u>1,825</u>	<u>138,968</u>	<u>-</u>	<u>132,438</u>

On 17 August 2008, the Company and CNTD signed a letter of intent, pursuant to which the Company intended to acquire certain properties of CNTD at a consideration of RMB2 billion. The Company has paid US\$16 million (equivalent to HK\$123,998 thousand) as earnest money. However, the letter of intent could not be binding and the earnest money would be refunded to the Company, unless approval for the Company to enter into the aforesaid asset purchase transaction was obtained from the shareholders of both the Company and CNTD by 30 June 2009 (that was subsequently extended to 30 June 2010) and registration of the change of ownership of the assets with the local land authorities is completed by that date. The letter of intent was terminated in 2009, and the earnest money paid by the Company was used to settle part of the purchase consideration of the new ordinary shares in CNTD allotted to Sinopower in September 2009.

The Group's amount due to an associate is disclosed in Note 40 to the financial statements.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

22. OTHER NON-CURRENT ASSETS

	<u>Group</u>		<u>Company</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Prepayments for acquisition of companies (a)	305,391	279,042	279,485	279,042
Deferred commission from sale of golf membership	57,526	-	-	-
Others	18	-	-	-
	<u>362,935</u>	<u>279,042</u>	<u>279,485</u>	<u>279,042</u>

- (a) On 17 August 2008, the Company signed a letter of intent with a third party (the "Vendor") to acquire its 100% equity interest in a resort investment management company in Jiaxing with a total consideration of US\$50 million (HK\$387 million). In connection with this transaction, the Group paid US\$36 million (equivalent to HK\$279 million) to the Vendor as earnest money. The earnest money was interest-free, and should be refunded to the Company if the conditions for the completion of the acquisition are not met by 30 June 2009. On 30 June 2009, the Company signed a memorandum with the Vendor to extend the deadline to 30 June 2010.

In December 2009, Shangzhi Real Estate, a subsidiary of the Company, entered into two acquisition agreements with third parties. Pursuant to the agreements, Shangzhi Real Estate agreed to purchase the entire equity interests in two property development companies incorporated in the PRC for RMB75,250 thousand and RMB38,800 thousand, respectively. As at 31 December 2009, neither of the acquisitions has been completed. The Group has paid earnest money of approximately RMB22,810 thousand (HK\$25,906 thousand) in aggregate to the Vendors according to the agreements.

23. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE

GROUP

	<u>2009</u>	<u>2008</u>
At cost		
- In Shanghai City, the PRC	3,634,893	2,631,348
- In Shenyang City, the PRC	810,719	276,324
- In Haikou City, the PRC	259,766	188,841
	<u>4,705,378</u>	<u>3,096,513</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

23. PROPERTIES HELD OR UNDER DEVELOPMENT FOR SALE (continued)
GROUP

	<u>2009</u>	<u>2008</u>
Properties held or under development expected to be recovered		
- Within one year	3,428,077	1,624,268
- After one year	<u>1,277,301</u>	<u>1,472,245</u>
	<u>4,705,378</u>	<u>3,096,513</u>

As of 31 December 2009 and 2008, certain of the Group's properties held or under development for sale had been pledged as collateral for the Group's bank loans and facilities (see Note 31 for details).

24. LAND INFRASTRUCTURE UNDER DEVELOPMENT FOR SALE

GROUP	<u>2009</u>	<u>2008</u>
At cost:		
Mainland China	<u>4,353,169</u>	<u>-</u>

Land infrastructure under development for sale is expected to be realised in the normal operating cycle, which is longer than 12 months.

As mentioned in the accounting policy on revenue recognition in Note 2.4, the realisation of land infrastructure under development for sale depends on the timing of sales of related land plots by governments, which is uncertain and out of the control of the Group, and the amounts of land infrastructure under development for sale recognised as cost of sales upon realisation change significantly from year to year.

25. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>Group</u>		<u>Company</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Prepaid business tax	177,205	49,293	-	-
Prepayment for inventories purchased	81,324	14,141	50,146	-
Others	<u>2,485</u>	<u>2,970</u>	<u>1,360</u>	<u>555</u>
	<u>261,014</u>	<u>66,404</u>	<u>51,506</u>	<u>555</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

26. OTHER RECEIVABLES

	<u>Group</u>		<u>Company</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Amounts due from non-controlling shareholders of subsidiaries	-	2,610	-	-
Receivables in connection with acquisition of Konmen Investment Limited (a)	550,382	545,211	-	-
Reimbursable amounts from construction companies	-	19,514	-	-
Receivables in respect of CNTD's Changchun Project (b)	366,132	-	-	-
Receivables in connection with the disposal of subsidiaries (Notes 20(a)(i)&(ii) and 46)	300,474	-	-	-
Capital contribution to a company pending registration	10,789	-	-	-
Interest subsidy receivable from government	21,022	-	-	-
Others	<u>80,272</u>	<u>74,810</u>	<u>86</u>	<u>-</u>
	<u>1,329,071</u>	<u>642,145</u>	<u>86</u>	<u>-</u>

- (a) On 17 August 2007, SRE Investment Holding Limited (a substantial shareholder of the Company, or the "Vendor") and an independent third party (the "Original Shareholder") entered into an acquisition agreement (the "Vendor Acquisition Agreement"), pursuant to which the Vendor agreed to purchase, from the Original Shareholder, the entire issued share capital (the "Sale Share") of Konmen Investment Limited ("Konmen"), which in turn holds a 70% interest in Liaoning Gao Xiao, for a consideration of HK\$1,600 million.

On the same date, the Vendor and a subsidiary of the Company (the "Purchaser") entered into an acquisition agreement (the "Acquisition Agreement"), pursuant to which the Purchaser agreed to purchase the Sale Share from the Vendor for a consideration of HK\$1,600 million. Pursuant to the Acquisition Agreement, the consideration was satisfied by the Company issuing 526,315,789 shares at a price of HK\$3.04 per share, representing approximately 23.80% of the then existing issued share capital of the Company and approximately 19.22% of the issued share capital of the Company as enlarged by the newly issued shares. The market share price on the acquisition date was HK\$3.36 per share.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

26. OTHER RECEIVABLES (continued)

(a) (continued)

On 15 November 2007, a supplemental agreement was entered into between the Vendor, the Company, the Purchaser, the Original Shareholder and Konmen (the "Supplemental Agreement").

Liaoning Gao Xiao is the developer of two properties (the "Properties") and also successfully won the bid in August 2007 for the acquisition of a parcel of land (the "Land") with a site area of approximately 153,696 square metres. Both the Properties and the Land are located at Shenyang City, the PRC. The total purchase cost of the Land including demolition and relocation costs that would be incurred is estimated at RMB1,192,680,960 (the "Land Purchase Cost"). Also, Liaoning Gao Xiao had assets (the "Assets") other than the Land and the unsold part of Properties, and other liabilities (the "Liabilities"), upon completion of the acquisition.

According to the above agreements, the Original Shareholder agreed to pay Liaoning Gao Xiao the Land Purchase Cost, to bear the Liabilities and to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent that they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. If the amounts paid by the Original Shareholder is made to the Vendor, the Vendor agreed to transfer such amounts to the Group. The Original Shareholder is also entitled to receive the Assets from the Group through the Vendor, to the extent that such assets have not been paid to the Original Shareholder and/or the shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao.

Pursuant to the above agreements, the Vendor has also undertaken to pay Liaoning Gao Xiao the Land Purchase Cost, and to bear the Liabilities and to reimburse Liaoning Gao Xiao the relevant amounts payable in respect of the Liabilities, to the extent they have not been paid for by the Original Shareholder and/or the other shareholder who holds the remaining 30% equity interest in Liaoning Gao Xiao. In addition, in the event that Liaoning Gao Xiao fails to obtain the relevant land use right to the Land by 30 June 2009, the Vendor undertakes to pay the Company HK\$1,600 million in cash on or before 30 December 2009 (the "Undertaking").

In connection with the above, RMB515 million (HK\$549 million) were received by the Group in 2007. As of 31 December 2009, the outstanding receivable in respect of this transaction amounted to approximately RMB485 million (approximately HK\$550 million) (2008: approximately RMB480 million (approximately HK\$545 million)).

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

26. OTHER RECEIVABLES (continued)

(a) (continued)

It was subsequently announced by the Company on 26 June 2009 that as at 30 April 2009, Liaoning Gao Xiao has only obtained land use rights for approximately 28% of the site area of the Land. On 4 December 2009, the Special General Meeting of the Company passed a resolution that the Company shall not exercise its rights under the Undertaking for the time being and shall delay enforcement of the Undertaking against the Vendor to 31 December 2012 if Liaoning Gao Xiao still fails to obtain the land use rights certificates in respect of the remaining portion of the Land by then.

(b) This amount represents RMB322 million which is estimated to be receivable from the Changchun Auto Industry Development Zone Administrative Committee (the "Changchun Committee"). In December 2009, CNTD entered into an agreement with the Changchun Committee, the non-controlling shareholder of one of the subsidiaries of CNTD, to cease the land infrastructure development in Changchun. Pursuant to the agreement, the Changchun Committee will fully repay the cost of construction, certain related expenditure and compensation for finance costs at a rate of 10% per annum. CNTD and the Changchun Committee have mutually agreed to appoint qualified professionals to carry out an audit on the construction works to determine the total amount payable by the Changchun Committee to CNTD. Such amounts were agreed to be settled by the Changchun Committee within 2010. RMB10 million has been collected in 2009. The transaction did not contribute any significant profit or loss to the Group.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

27. ACCOUNTS RECEIVABLE

GROUP

	<u>2009</u>	<u>2008</u>
Accounts receivable	411,635	28,085
Less: Impairment	<u>(10,313)</u>	<u>(9,920)</u>
	<u>401,322</u>	<u>18,165</u>
Non-current accounts receivable	<u>106,365</u>	-
	<u>507,687</u>	<u>18,165</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

27. ACCOUNTS RECEIVABLE (continued)

	<u>2009</u>	<u>2008</u>
Accounts receivable		
Receivables from the development of land infrastructure	326,226	-
Receivables from the sale of golf club membership	50,794	-
Receivables from hotel operations	5,455	5,255
Receivables from property leasing	4,367	3,159
Receivables from sale of residential and commercial properties	9,708	8,769
Less: Impairment	(6,123)	(3,910)
Receivables from network hardware and installation of intelligent home equipment	8,429	10,902
Less: Impairment	(3,655)	(6,010)
Others	6,656	-
Less: Impairment	(535)	-
	<u>401,322</u>	<u>18,165</u>
Non-current accounts receivable		
Receivables from the development of land infrastructure	99,152	-
Receivables from the sale of golf club membership	7,213	-
	<u>106,365</u>	<u>-</u>
	<u>507,687</u>	<u>18,165</u>

An aged analysis of accounts receivable as at the end of the reporting period, from the date when they were recognised, is as follows:

	<u>2009</u>	<u>2008</u>
Within 6 months	201,473	17,574
6 months to 1 year	16,717	-
1 to 2 years	181,490	591
Over 2 years	118,320	9,920
	<u>518,000</u>	<u>28,085</u>

The Group's sale of development properties, hotel and golf (other than golf membership) operations are generally on a 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: they are receivable in installments, the credit terms range from 2 to 3 years;

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

27. ACCOUNTS RECEIVABLE (continued)

- Development of land infrastructure: there is no clearly specified credit terms, the receivables represent the Group's share of the proceeds from land sold by local governments through public auction, the collection of 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 portions (e.g. the amount attributable to public utility fee) of the receivable which takes more than one year.
- Others: generally within 6 months.

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

Accounts receivable which are neither past due nor impaired and aged analysis for past due but not impaired accounts receivables are as follows:

	<u>2009</u>	<u>2008</u>
Neither past due nor impaired	473,679	10,181
Past due but not impaired:		
Within 30 days	1,759	-
30 to 60 days	758	-
60 to 90 days	1,399	-
90 to 120 days	587	-
Over 120 days	29,505	7,984
	<u>507,687</u>	<u>18,165</u>

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

The movements in provision for impairment of accounts receivable are as follows:

	<u>2009</u>	<u>2008</u>
At beginning of year	9,920	10,934
Impairment losses recognised (Note 7)	377	562
Amount written off as uncollectible	-	(2,237)
Exchange realignment	16	661
At end of year	<u>10,313</u>	<u>9,920</u>

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of approximately HK\$10 million (2008: approximately HK\$10 million) with an aggregate carrying amount before provision of approximately HK\$10 million (2008: HK\$10 million). These individually impaired accounts receivable have been outstanding for over 2 years and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

28. CASH AND BANK BALANCES

	Group		Company	
	2009	2008	2009	2008
Cash in hand	1,820	1,557	31	14
Demand and notice deposits	4,018,720	843,618	84,790	170,673
Time deposits with original maturity of no more than 3 months	113,572	28,348	-	-
Cash and cash equivalents	4,134,112	873,523	84,821	170,687
Time deposits with original maturity of more than 3 months	7,950	4,997	-	-
Pledged bank deposits (a)	126,292	181,426	-	-
Restricted bank deposits under a development project (b)	284,770	515,530	-	-
Restricted bank deposits relating to interest on borrowings (c)	49,698	-	-	-
Cash and bank balances	4,602,822	1,575,476	84,821	170,687

- (a) As at 31 December 2009, the bank deposits of approximately HK\$126 million (2008: HK\$181 million) were pledged as securities for bank borrowings (Note 31).
- (b) These restricted bank deposits are funds designated for relocating existing residents under a development project.
- (c) These are amounts of US\$1,135 thousand and RMB36 million, relating to the interest to be paid for CNTD Guaranteed Senior Notes in March 2010 and for the RMB600 million bank loan obtained in October 2009 respectively, which have been escrowed in interest reserve accounts.

The carrying amounts of the cash and bank balances which are denominated in the following currencies are:

	Group		Company	
	2009	2008	2009	2008
Hong Kong dollars	12,900	169,601	4,362	168,655
United States dollars	95,465	5,102	80,459	2,005
Singapore dollars	85	-	-	-
RMB	4,494,372	1,400,773	-	27
	4,602,822	1,575,476	84,821	170,687

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

28. CASH AND BANK BALANCES (continued)

Demand deposits earn interest at floating rates based on daily bank deposit rates. Notice deposits are made for varying periods of between one day and seven days depending on the immediate cash requirements of the Group, and earn interest at the respective notice deposit rates. Time deposits earn interest rate at the respective time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents, pledged and restricted deposits approximate to their fair values.

29. SHARE CAPITAL AND PREMIUM

GROUP AND COMPANY

	Number of shares (thousands)	Amount		
		Issued capital	Share premium	Total
At 1 January 2009	2,783,881	278,388	3,724,713	4,003,101
Issue of shares upon conversion of convertible bonds (b) (Note 41)	300,000	30,000	217,212	247,212
Issue of new shares (c)	520,000	52,000	434,176	486,176
At 31 December 2009	3,603,881	360,388	4,376,101	4,736,489

	Number of shares (thousands)	Amount		
		Issued capital	Share premium	Total
At 1 January 2008	2,737,844	273,784	3,682,543	3,956,327
Scrip dividends (Note 14)	46,037	4,604	42,170	46,774
At 31 December 2008	2,783,881	278,388	3,724,713	4,003,101

The total authorised number of ordinary shares is 8,000 million shares (2008: 8,000 million shares) with a par value of HK\$0.10 per share (2008: HK\$0.10 per share). All issued shares are fully paid.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

29. SHARE CAPITAL AND PREMIUM (continued)

- (a) The Company's share option scheme was approved at a special general meeting held on 23 May 2002. According to this share option scheme, the directors may, at their discretion, at any time during the 10 years from the date of approval of the scheme, invite any executive and/or employee of the Group to take up share options of the Company. The subscription price is determined by the directors and may not be less than the higher of (i) the average official closing price of the shares on the HKSE for the five trading days immediately preceding the relevant offer date and (ii) the official closing price of the shares on the HKSE on the relevant offer date.

No share options of the Company were outstanding as at 31 December 2009 and 2008. CNTD's Management Stock Option Plan was detailed in Note 30(a).

- (b) During the year ended 31 December 2009, the following convertible bonds ("CB3") issued by the Company were converted by the bondholders at the conversion price of HK\$0.55 per ordinary share and the following ordinary shares have been issued:

Issue date of ordinary shares	CB3 at conversion price of HK\$0.55 per ordinary share	
	Face value of convertible bonds	Number of new ordinary shares issued
May 2009	82,500,000	149,999,998
July 2009	82,500,000	149,999,999
Total	165,000,000	299,999,997

- (c) On 29 June 2009, SRE Investment Holding Limited ("SRE Investment") and the Company entered into a placing agreement with Credit Suisse (Hong Kong) Limited and Deutsche Bank AG, Hong Kong Branch (the "Placing Agreement"). Under the Placing Agreement, SRE Investment has subscribed for 520,000,000 new shares, representing approximately 17.72% of the issued share capital of the Company prior to the placement and approximately 15.06% of the issued share capital of the Company as enlarged by the subscription. The subscription price for the new shares was HK\$0.96 per share. The issuance cost was approximately HK\$13,024 thousand.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity. Pursuant to the relevant laws and regulations for sino-foreign joint venture enterprises, a portion of the profits of the Group's entities which are established in Mainland China has been transferred to reserve funds which are restricted as to use.

Companies within the Group, most of which are registered in the PRC as foreign invested entities, are required to make appropriations from statutory net profits to the reserve fund and the enterprise expansion fund, upon distribution of their post-tax profits of the current year. The percentages to be appropriated to the reserve fund and the enterprise expansion fund are determined by the boards of directors of these companies.

Companies within the Group, which are registered in the PRC as domestic invested entities, are required to appropriate 10% of statutory net profits to the statutory surplus reserve, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. Upon contribution to the statutory surplus reserve using its post-tax profit, a company may make further contribution to the surplus reserve using its post-tax profit in accordance with a resolution of the board of directors.

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

Since CNTD was deemed as a subsidiary of the Company on 9 September 2009, CNTD's MSOP was included in the consolidated financial statements of the Group. The detailed information of the MSOP since it was launched is as follows:

On 5 July 2007, the Board of Directors of the CNTD passed a resolution to award a MSOP for a total of 380 CNTD shares (equivalent to 28,500 thousand CNTD shares after the CNTD's share split in 2007) to certain of the CNTD's directors and employees ("Entitled Persons") as an incentive for their continued service to CNTD in the following proportions.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

30. RESERVES (continued)

(a) Group (continued)

CNTD's Management Stock Option Plan ("MSOP") (continued)

<u>Entitled Person</u>	<u>Number of CNTD shares allotted</u>	
	<u>Before CNTD share split</u>	<u>Equivalent to numbers after CNTD share split</u>
Li Yao Min	79	5,925,000
Yue Wai Leung, Stan	79	5,925,000
Yang Yong Gang	68	5,100,000
Gu Bi Ya	40	3,000,000
Cheng Wai Ho	40	3,000,000
Mao Yi Ping	33	2,475,000
Tai Kuo Lin	25	1,875,000
Ma Da Yu	10	750,000
Sun Xiao Meng	3	225,000
Zhang Qiong	3	225,000
Total	<u>380</u>	<u>28,500,000</u>

In accordance with the terms of the MSOP, the shares are allotted and will vest as follows: (a) 10% at the end of the 12th month after the date of listing of CNTD on the Main Board of the SGX; (b) 15% at the end of the 24th month after the date of listing of CNTD on the Main Board of the SGX; (c) 20% at the end of the 36th month after the date of listing of CNTD on the Main Board of the SGX; (d) 25% at the end of 48th month after the date of listing of CNTD on the Main Board of the SGX; and (e) the remaining 30% at the end of the 60th month after the date of listing of CNTD on the Main Board of the SGX.

The MSOP is provided on the basis that the relevant Entitled Persons remain in service within CNTD on the vesting days and he/she has not submitted a notice of resignation at those dates. The exercise price is RMB8 per CNTD share (before CNTD's share split in 2007, after the CNTD's share split, the exercise price is RMB8 per 75,000 CNTD share). The MSOP is accounted for as a compensation for services to be provided by the Entitled Persons in the periods of service (the "vesting periods") as specified above. Since the shares granted do not vest until the Entitled Persons complete their services in the vesting periods, CNTD will recognise the expenses over the vesting periods.

CNTD's MSOP - Fair value of stock options granted

The fair value of the equity-settled stock options was approximately RMB 2.023 per CNTD share (after CNTD's share split in 2007) at the date of grant. There have been no cancellations or modifications to the MSOP, and the MSOP was not replaced as a result of the acquisition of CNTD. The fair value on 9 September 2009 was approximately RMB 0.576 per share.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

30. RESERVES (continued)

(a) Group (continued)

CNTD's MSOP - Fair value of stock options granted (continued)

The fair value of the stock option was estimated using the binomial option pricing model. Since the exercise price of the equity-settled stock options is close to zero per share (after CNTD's share split in 2007), the single most important input to the valuation model is price of the CNTD's shares, which were estimated to be approximately RMB 2.023 per share (after CNTD's share split in 2007) at the date of grant, and was quoted at RMB 0.576 per share (after CNTD's share split in 2007) on 9 September 2009.

Two of the Entitled Persons who have 975 thousand CNTD's shares (after CNTD's share split) left CNTD during the years ended 31 December 2009 and 31 December 2007, so their rights under the MSOP were forfeited according to the terms of MSOP.

CNTD's MSOP - Movement in the year

The following table illustrates the number of and movements in MSOP during the year:

	<u>2009</u>	<u>2008</u>
	Number of CNTD's shares (after the share split)	Number of CNTD's shares (after the share split)
Outstanding at the beginning of the year	27,750,000	27,750,000
Forfeited during the year	(225,000)	-
Exercised during the year	(2,752,500)	-
Outstanding at the end of the year	<u>24,772,500</u>	<u>27,750,000</u>
Exercisable at the end of the year	4,128,750	2,775,000

(b) Company

	<u>Share option reserve</u>	<u>Exchange fluctuation reserve</u>	<u>Equity component of convertible bonds</u>	<u>Retained profits</u>	<u>Total</u>
Balance at 1 January 2009	248	526,838	-	5,817	532,903
Total comprehensive income for the year	-	8,387	-	240,281	248,668
Equity component of CB4	-	-	179,361	-	179,361
Balance at 31 December 2009	<u>248</u>	<u>535,225</u>	<u>179,361</u>	<u>246,098</u>	<u>960,932</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

30. RESERVES (continued)

(b) Company (continued)

	Share option reserve	Exchange fluctuation reserve	Retained profits	Total
Balance at 1 January 2008	248	262,489	97,573	360,310
Total comprehensive income for the year	-	264,349	4,069	268,418
Dividends relating to 2007				
- Cash dividends (Note 14)	-	-	(49,051)	(49,051)
- Scrip dividends (Note 14)	-	-	(46,774)	(46,774)
Balance at 31 December 2008	<u>248</u>	<u>526,838</u>	<u>5,817</u>	<u>532,903</u>

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

GROUP AND COMPANY

	Group		Company	
	2009	2008	2009	2008
Short-term bank borrowings				
- Secured	90,857	453,566	-	-
Current portion of long-term borrowings				
- Secured	1,453,151	984,266	-	84,000
- Unsecured	<u>45,950</u>	<u>57,808</u>	<u>45,950</u>	<u>58,620</u>
Borrowings, current portion	<u>1,589,958</u>	<u>1,495,640</u>	<u>45,950</u>	<u>142,620</u>
Long-term bank borrowings				
- Secured	5,732,283	2,902,150	247,294	130,275
Other long-term borrowings				
- Unsecured	<u>210,266</u>	<u>142,964</u>	<u>46,072</u>	<u>86,590</u>
Borrowings, non-current portion	<u>5,942,549</u>	<u>3,045,114</u>	<u>293,366</u>	<u>216,865</u>
The long-term bank borrowings are repayable as follows:				
- Within 1 year	1,499,101	1,042,074	45,950	142,620
- 1 to 2 years	1,293,989	1,360,568	119,869	128,413
- 2 to 3 years	1,166,882	1,447,717	173,497	74,027
- 3 to 5 years	1,067,903	236,829	-	14,425
- After 5 years	<u>2,413,775</u>	<u>-</u>	<u>-</u>	<u>-</u>
	7,441,650	4,087,188	339,316	359,485
Less: long-term borrowings, current portion	<u>(1,499,101)</u>	<u>(1,042,074)</u>	<u>(45,950)</u>	<u>(142,620)</u>
Long-term borrowings, non-current	<u>5,942,549</u>	<u>3,045,114</u>	<u>293,366</u>	<u>216,865</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY (continued)

Short-term bank borrowings - secured

As at 31 December 2009, a short-term bank loan of approximately HK\$91 million (2008: HK\$454 million) was secured by a pledge of the Group's investment properties and property, plant and equipment.

Long-term bank borrowings - secured

As at 31 December 2009, long-term bank borrowings of approximately HK\$7,185 million (2008: approximately HK\$3,886 million) were secured by pledges of the Group's leasehold land, together with bank deposits, property, plant and equipment, investment properties, and properties held or under development for sale. Also, as at 31 December 2009, a long-term bank loan with principal of HK\$400 million (2008: Nil) were guaranteed by Mr. Shi Jian, the Chairman of the Company.

Other long-term borrowings - unsecured

As at 31 December 2009, unsecured long-term borrowings of approximately HK\$92 million are from external bankers (2008: approximately HK\$201 million) in connection with the termination of the cross currency swaps, entered into during the year ended 31 December 2007. Unsecured long-term borrowings of approximately HK\$164 million are entrusted loan from a non-controlling shareholder of a subsidiary of the Company.

Overall collateral arrangements for bank borrowings

As at 31 December 2009, bank deposits of approximately HK\$126 million (2008: approximately HK\$181 million) (Note 28), leasehold land of approximately HK\$2,404 million (2008: approximately HK\$2,263 million) (Note 18), investment properties of approximately HK\$6,115 million (2008: approximately HK\$5,209 million), properties held or under development for sale of approximately HK\$1,966 million (2008: approximately HK\$1,514 million), and property, plant and equipment of approximately HK\$1,795 million (2008: approximately HK\$1,456 million) (Note 16) were pledged as collateral for the Group's long-term bank borrowings and banking facilities.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

GROUP AND COMPANY (continued)

The weighted average effective interest rates for these borrowings at the end of the reporting period are as follows:

	2009			2008		
	HKS	US\$	RMB	HKS	US\$	RMB
Short-term bank borrowings	-	-	6.37%	-	-	5.99%
Long-term bank borrowings	2.80%	-	5.77%	4.27%	-	7.34%
Other long-term borrowings	-	6.01%	7.07%	-	6.01%	-

As bank loans are all borrowed at prevailing market interest rates, which would be adjusted from time to time in line with interest rate changes in the market, the carrying amounts of the bank loans approximate to their fair values.

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2009	2008	2009	2008
Hong Kong dollars	637,517	501,678	247,294	214,275
United States dollars	92,022	145,210	92,022	145,210
RMB	6,802,968	3,893,866	-	-
	<u>7,532,507</u>	<u>4,540,754</u>	<u>339,316</u>	<u>359,485</u>

The Group had the following undrawn credit facilities as of the end of the reporting period:

	2009	2008
Floating rate loan facilities		
- expiring within 1 year	261,215	39,687
- expiring beyond 1 year	-	-
	<u>261,215</u>	<u>39,687</u>

During the year, the Group has entered into the Strategic Cooperation Framework Agreements with certain banks with a total amount of RMB7 billion (equivalent to HK\$7.95 billion), (2008: RMB7 billion, equivalent to HK\$7.94 billion), and therefore, the Group will be entitled to apply for borrowings on the condition that proper collateral (land use rights, properties, etc.) are available to be pledged.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

32. GUARANTEED SENIOR NOTES

GROUP AND COMPANY

	Group		Company	
	2009	2008	2009	2008
<u>Non-current</u>				
SRE Guaranteed Senior Notes (a)	552,463	1,537,947	552,463	1,537,947
<u>Current</u>				
CNTD Guaranteed Senior Notes (b)	95,813	-	-	-
	<u>648,276</u>	<u>1,537,947</u>	<u>552,463</u>	<u>1,537,947</u>

SRE Guaranteed Senior Notes

At initial recognition, the SRE Guaranteed Senior Notes in its original currency are as follows:

	<u>US\$'000</u>
Face value of SRE Guaranteed Senior Notes	200,000
Less: issuance cost	<u>(6,841)</u>
Carrying amount on initial recognition	<u>193,159</u>

The movements in the carrying amount of SRE Guaranteed Senior Notes during the year are as follows:

	2009		2008	
	<u>US\$'000</u>	<u>HK\$ equivalent HK\$'000</u>	<u>US\$'000</u>	<u>HK\$ equivalent HK\$'000</u>
At beginning of year	198,448	1,537,947	197,595	1,540,928
Foreign exchange gain or loss	-	680	-	(9,622)
Add: interest expense (Note 9)	13,081	101,409	18,103	140,915
Less: payment of interest	(11,707)	(90,756)	(17,250)	(134,274)
Less: amount redeemed (including accrued interest)	<u>(128,582)</u>	<u>(996,817)</u>	-	-
At end of year	<u>71,240</u>	<u>552,463</u>	<u>198,448</u>	<u>1,537,947</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

32. GUARANTEED SENIOR NOTES (continued)

GROUP AND COMPANY (continued)

CNTD Guaranteed Senior Notes

The movements in the carrying amount of CNTD Guaranteed Senior Notes during the year are as follows:

	2009		2008	
	RMB'000	HK\$ equivalent HK\$'000	RMB'000	HK\$ equivalent HK\$'000
At beginning of year	-	-	-	-
Acquisition of subsidiaries (Note 45)	83,231	94,452	-	-
Exchange realignment	-	76	-	-
Add: interest expense (Note 9)	8,886	10,085	-	-
Less: payment of interest	(7,754)	(8,800)	-	-
At end of year	<u>84,363</u>	<u>95,813</u>	<u>-</u>	<u>-</u>

- (a) On 24 April 2006, the Company issued guaranteed senior 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 "SRE Guaranteed Senior Notes"). The SRE Guaranteed Senior Notes are guaranteed by all investment holding subsidiaries (except Anderson Shanghai) which are not incorporated in the PRC.

Interest of the SRE Guaranteed Senior Notes is payable semi-annually in arrears on 24 April and 24 October in each year commencing from 24 October 2006. With regard to the principal amount, the Company has the following redemption options:

- i) prior to 24 April 2009, redeem on one or more occasions up to 35% of the aggregate principal amount of the SRE Guaranteed Senior Notes originally issued, at a redemption price of 108.625% of the principal amount, plus accrued and unpaid interest to the redemption date, or
- ii) at any time or from time to time prior to the Maturity Date, redeem all or part of the SRE Guaranteed Senior Notes at a redemption price equal to 100% of the principal amount thereof plus an applicable premium plus accrued and unpaid interest to such redemption date.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

32. GUARANTEED SENIOR NOTES (continued)

(a) (continued)

On 25 April 2006, the SRE Guaranteed Senior Notes were listed on the HKSE.

Interest expense on the SRE Guaranteed Senior Notes is calculated using the effective interest method by applying the effective interest rate of 9.30% per annum.

On 9 June 2009, the Company announced that it has commenced a tender offer to purchase for cash any and all of its US\$200,000,000 SRE Guaranteed Senior Notes. In response to the tender offer, the noteholders holding SRE Guaranteed Senior Notes in an aggregate principal amount of US\$128,539 thousand, representing approximately 64.27% of the total aggregate principal amount of the US\$200 million SRE Guaranteed Senior Notes had tendered their SRE Guaranteed Senior Notes to be repurchased by the Company in cash. As a result of the redemption, the Group reported a gain on redemption of Guaranteed Senior Notes of approximately HK\$179,102 thousand (Note 6).

Following the redemption of the SRE Guaranteed Senior Notes, US\$71,461,000 of the principal amount of the SRE Guaranteed Senior Notes remained outstanding as at 31 December 2009. The original payment terms of the remaining Guaranteed Senior Notes remained unchanged.

(b) On 12 September 2008, 17.75% US dollar settled Senior Secured Guaranteed Notes (the "CNTD Guaranteed Senior Notes") with the principal amount of RMB593.3 million due on 12 September 2011 was issued by CNTD when CNTD was an associate of the Group.

In September 2009, CNTD completed the repurchase of RMB505,940 thousand in a principal amount of the CNTD Guaranteed Senior Notes from the noteholders by an aggregate of newly issued 229,586,468 ordinary shares (with a fair value equivalent to HK\$150 million) of CNTD by way of a private placement and cash amounting to US dollar equivalent of HK\$386 million. After the repurchase and as of 31 December 2009, the principal amount of outstanding CNTD Guaranteed Senior Notes was RMB87,360 thousand (equivalent to HK\$99,216 thousand).

Since certain covenants of remaining CNTD Guaranteed Senior Notes have not been complied with as of 31 December 2009, which could result in the holders of CNTD Guaranteed Senior Notes requiring immediate repayment of the outstanding principal and accrued and unpaid interest, the Group classified the CNTD Guaranteed Senior Notes as current liabilities as of 31 December 2009 accordingly.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

33. DEFERRED INCOME

GROUP

		<u>2009</u>	<u>2008</u>
Deferred income arising from:			
<u>Non-current:</u>			
Sale of golf club membership	(i)	639,041	-
<u>Current:</u>			
Construction of ancillary public facilities	(ii)	<u>696,291</u>	<u>-</u>
		<u>1,335,332</u>	<u>-</u>

Notes:

- (i) The revenue arising from the sale of golf club membership is deferred and recognised on the straight-line basis over the expected period when the related benefits would be provided.
- (ii) The deferred revenue arising from the sale of land infrastructure represents the portion of amounts received/receivable from the land authorities as a result of the sale of parcels of land developed by the Group that are not yet recognised as revenue, because the development of the ancillary public facilities attributable to the parcels of land sold is still in progress. The amounts received/receivable are non-refundable unless the Group cannot complete the development work. The deferred income is classified as a current liability as the remaining development work is expected to be provided within the normal operating cycle.

34. DEFERRED TAX

GROUP

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes, if any, levied by the same tax authority and the same taxable entity.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

34. DEFERRED TAX (continued)

GROUP

The gross movements in the deferred tax account are as follows:

	<u>2009</u>	<u>2008</u>
At beginning of year	1,410,785	755,355
Reclassified to current tax liability in the current year	(92,040)	-
Disposal of subsidiaries (Note 46)	(28,942)	-
Acquisition of subsidiaries (Note 45)	(72,178)	-
Recognised in profit or loss (Note 12)	241,298	603,414
Exchange realignment	2,276	52,016
At end of year	<u>1,461,199</u>	<u>1,410,785</u>

Represented by:

	<u>2009</u>	<u>2008</u>
Deferred tax assets	(177,588)	(19,811)
Deferred tax liabilities	1,638,787	1,430,596
	<u>1,461,199</u>	<u>1,410,785</u>

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets:

	<u>Tax losses carried forward</u>	<u>The difference in accounting and tax bases arising from golf club revenue and costs</u>	<u>Others</u>	<u>Total</u>
At 1 January 2008	3,747	-	-	3,747
Recognised in profit or loss	16,079	-	-	16,079
Exchange realignment	(15)	-	-	(15)
At 31 December 2008	19,811	-	-	19,811
Acquisition of subsidiaries (Note 45)	15,071	126,865	42,696	184,632
Recognised in profit or loss	16,169	3,478	(4,378)	15,269
Exchange realignment	57	118	36	211
At 31 December 2009	<u>51,108</u>	<u>130,461</u>	<u>38,354</u>	<u>219,923</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

34. DEFERRED TAX (continued)

GROUP

Deferred tax liabilities:

	Fair value gains	Excess of fair value over book value in the subsidiaries as a result of business combination	Withholding taxes	Others	Total
At 1 January 2008	370,467	369,388	-	19,247	759,102
Recognised in profit or loss	365,529	(24,472)	182,797	95,639	619,493
Exchange realignment	26,168	22,222	1,618	1,993	52,001
At 31 December 2008	762,164	367,138	184,415	116,879	1,430,596
Reclassified to current tax liability during the year	-	-	-	(92,040)	(92,040)
Disposal of subsidiaries (Note 46)	(4,441)	(24,501)	-	-	(28,942)
Acquisition of subsidiaries (Note 45)	34,395	78,059	-	-	112,454
Recognised in profit or loss	133,791	(8,958)	101,331	30,403	256,567
Exchange realignment	1,369	602	227	289	2,487
At 31 December 2009	<u>927,278</u>	<u>412,340</u>	<u>285,973</u>	<u>55,531</u>	<u>1,681,122</u>

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	<u>2009</u>	<u>2008</u>
Net deferred tax assets recognised in the consolidated statement of financial position	(177,588)	(19,811)
Net deferred tax liabilities recognised in the consolidated statement of financial position	<u>1,638,787</u>	<u>1,430,596</u>
	<u>1,461,199</u>	<u>1,410,785</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

34. DEFERRED TAX (continued)

GROUP

Deferred tax assets have not been recognised in respect of the following items:

	<u>2009</u>	<u>2008</u>
Tax losses	689,819	467,226
Deductible temporary differences	<u>9,357</u>	<u>95,282</u>
	<u>699,176</u>	<u>562,508</u>

The above tax losses arising in Mainland China for offsetting against future taxable profit will expire in one to five years. Deferred tax assets have not been recognised in respect of the tax losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these temporary differences can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings derived after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10% or 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. CONVERTIBLE BONDS

GROUP AND COMPANY

The carrying value of the host debt components of the convertible bonds as at the end of the reporting period are as follows:

	<u>2009</u>	<u>2008</u>
Convertible Bonds 3 ("CB3") – host debt	-	62,008
Convertible Bonds 4 ("CB4") – host debt	<u>312,219</u>	<u>-</u>
	<u>312,219</u>	<u>62,008</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. CONVERTIBLE BONDS (continued)

GROUP AND COMPANY

Convertible Bonds 2 (“CB2”)

On 9 November 2005, the Company issued convertible bonds (“CB2”) maturing on 9 November 2010, in the aggregate principal amount of HK\$386 million with an initial conversion price of HK\$1.35 per ordinary share of the Company (subject to one time adjustment on 9 November 2006). The coupon interest rate of these bonds is 3.5% per annum, which is paid in advance at the beginning of each year. In the event of conversion or early redemption, there would be no claw back of such prepayment of interest. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 110% of their principal amount on 9 November 2010. When the holders exercise the conversion rights of CB2, the Company has an option to pay an amount in cash that approximates to the market value of the shares that can be converted.

During the year ended 31 December 2008, the entire CB2 with a face value of HK\$43.5 million were redeemed when the relevant holders exercised their early redemption option. There was no outstanding balance for the CB2 as at 31 December 2008.

Convertible Bonds 3 (“CB3”)

On 29 December 2008 (the “Issue Date”), the Company issued convertible bonds (the “CB3”) maturing on 29 December 2013, in the aggregate principal amount of HK\$165 million with an initial conversion price of HK\$0.55 per ordinary share of the Company (subject to certain anti-dilutive adjustments). The coupon interest rate is 2.5% per annum, payable semi-annually in arrears on 29 June and 29 December in each year. The bondholders have the option to convert the CB3 to ordinary shares of the Company at any time after 60 days from the Issue Date to seven business days before its maturity. The bondholders also have the option to require redemption at 120% of the principal amount (or an amount that will give holders a return of 15% per annum if certain events occur) at any time after three years from the Issue Date. The Company also has the option to redeem, at an amount that will give holders a return of 15% per annum, part of the CB3 before its maturity if the share price of the Company rises to a certain level. Unless previously redeemed, converted or purchased and cancelled, the CB3 will be redeemed at 135% of the principal amount (or an amount that will give holders a return of 15% per annum if certain events occur) on 29 December 2013.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. CONVERTIBLE BONDS (continued)

Convertible Bonds 3 (“CB3”) (continued)

During the year ended 31 December 2009, the entire CB3 with the face value of HK\$165 million were converted into shares of the Company when the relevant holders exercised their conversion right. There was no outstanding balance for the CB3 as at 31 December 2009.

Convertible Bonds 4 (“CB4”)

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

On 24 July 2009, CB4 were listed on the HKSE.

The face value of the outstanding CB4 as at 31 December 2009 amounted to RMB446,900 thousand (equivalent to HK\$507,553 thousand).

As at 31 December 2009, the carrying amount of the CB4 was recorded under current liabilities, as the conversion option may be exercised, at the option of the holders, at any time after 41 days from the Issue Date.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. CONVERTIBLE BONDS (continued)

Convertible Bonds 4 (“CB4”) (continued)

Since the conversion options embedded in the CB2 and CB3 do not meet the definition of equity instruments of the Company, CB2 and CB3, in their entirety, are accounted for as financial liabilities and are separated into the host debt component and embedded derivative component. The embedded derivatives are accounted for as financial liabilities at fair value through profit or loss. The host debt component is initially recognised as the excess of proceeds over the amount initially recognised as the derivative component, net of transaction costs allocated to the host debt component, and are subsequently measured at amortised cost.

The conversion option embedded in the CB4 meets the definition of equity instruments of the Company, and therefore it is classified as equity and presented separately 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 as 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.

The various components of the respective convertible bonds recognised on initial recognition are as follows:

	<u>CB2</u>	<u>CB3</u>	<u>CB4</u>
Gross proceeds from issuance of convertible bonds	386,000	165,000	507,149
Transaction costs attributable to the host debt component	(19,811)	(7,382)	(17,378)
Separated embedded derivatives component	(93,906)	(95,710)	-
Transaction costs attributable to the equity component	-	-	(10,535)
Equity component, net of transaction costs	-	-	(179,361)
Host debt component on initial recognition upon issuance	<u>272,283</u>	<u>61,908</u>	<u>299,875</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. CONVERTIBLE BONDS (continued)

The movements in the host debt component for the year are as follows:

	2009		
	CB3	CB4	Total
Host debt component at 1 January 2009	62,008	-	62,008
Newly issued host debts - CB4	-	299,875	299,875
Interest expense (Note 9)	8,708	25,392	34,100
Payment of interest	(1,029)	-	(1,029)
Exchange realignment	-	259	259
Amount converted	(69,687)	-	(69,687)
Less: interest payable included in other payables	-	(13,307)	(13,307)
Host debt component at 31 December 2009	-	312,219	312,219
Less: amount classified as current liabilities	-	(312,219)	(312,219)
Amount classified as non-current liabilities	-	-	-
	2008		
	CB2	CB3	Total
Host debt component at 1 January 2008	35,363	-	35,363
Newly issued host debts - CB3	-	61,908	61,908
Interest expense (Note 9)	4,220	100	4,320
Amount redeemed	(39,583)	-	(39,583)
Host debt component at 31 December 2008	-	62,008	62,008
Less: amount classified as current liabilities	-	(62,008)	(62,008)
Amount classified as non-current liabilities	-	-	-

Interest expenses on the CB2, CB3 and CB4 are calculated using the effective interest method by applying the effective interest rates of 14.10%, 33.86% and 19.93% to the host debt component, respectively.

Separated embedded derivatives of the convertible bonds

The fair values of the separated embedded derivatives of the convertible bonds on initial recognition are as follows:

	CB2	CB3	Total
Initial recognition upon issuance of bonds	93,906	95,710	189,616

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

35. CONVERTIBLE BONDS (continued)

The fair value movements in the derivative financial liabilities embedded in the CB2 and CB3 for the years ended 31 December 2009 and 2008 are as follows:

	<u>2009</u>
	<u>CB3</u>
Embedded derivative component at beginning of year (Note 36)	88,470
Fair value loss recognised in profit or loss (note 6)	89,055
Conversion to shares	<u>(177,525)</u>
Embedded derivative component at end of year (Note 36)	<u>-</u>

	<u>2008</u>		
	<u>CB2</u>	<u>CB3</u>	<u>Total</u>
Embedded derivative component at beginning of year	19,604	-	19,604
Newly issued	-	95,710	95,710
Fair value gain recognised in profit or loss (Note 6)	-	(7,240)	(7,240)
Bond redemption	<u>(19,604)</u>	<u>-</u>	<u>(19,604)</u>
Embedded derivative component at end of year (Note 36)	<u>-</u>	<u>88,470</u>	<u>88,470</u>

Those multiple embedded derivatives (holders' put options, issuer's call options and holders' conversion options etc., that are not independent of each other) in a single instrument that are not closely related to the host contract are treated as a single compound embedded derivative. They are presented as derivative financial liabilities (see Note 36).

During the year ended 31 December 2009, the fair value of the derivative financial instruments was determined by Jones Lang LaSalle Sallmanns Appraisals Limited (2008: Jones Lang LaSalle Sallmanns Appraisals Limited) using generally accepted valuation methodologies, including, but not limited to, the binomial option pricing model.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

36. DERIVATIVE FINANCIAL LIABILITIES

GROUP AND COMPANY

	<u>2009</u>	<u>2008</u>
Embedded derivatives in CB3 (Note 35)	-	88,470
	<u>-</u>	<u>88,470</u>

The derivative financial liabilities are reported at their fair values.

37. ADVANCES RECEIVED FROM THE PRE-SALE OF PROPERTIES UNDER DEVELOPMENT

GROUP

	<u>2009</u>	<u>2008</u>
Advances received from the pre-sale of properties under development	4,943,649	1,171,996

The Group conducts the pre-sale of properties when they are still under development. As contracted with customers, advances amounting to a substantial portion of sales consideration are paid to the Group shortly from the signing of the pre-sales contract. Such amounts held by the Group are non-interest-bearing. Business tax, generally calculated at a rate of 5% on advances received, are imposed by the tax authorities.

38. ACCOUNTS PAYABLE

GROUP

An aged analysis of accounts payable as at the end of the reporting period, from the date when they were incurred, is as follows:

	<u>2009</u>	<u>2008</u>
Within 1 year	2,546,524	1,329,720
1 to 2 years	522,927	27,657
Over 2 years	106,922	-
	<u>3,176,373</u>	<u>1,357,377</u>

Accounts payable represent payables arising from property construction. The accounts payable are non-interest-bearing and are normally settled within one year.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

39. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2009	2008	2009	2008
Payables for prepaid land lease payments	928,146	1,133,104	-	-
Deposits received from and other payable to customers and construction companies	321,540	165,466	-	-
Advance from related parties of a non-controlling shareholder of a subsidiary	-	229,034	-	-
Business tax and surtaxes payable	301,651	54,973	-	-
Interest payable to a former non-controlling shareholder of a subsidiary	7,884	7,871	-	-
Dividends payable to non-controlling shareholders of subsidiaries	11,801	10,191	-	-
Relocation costs payable	269,211	509,149	-	-
Audit fees	4,429	680	-	-
Deposits from stores, rents received for developers and public utility fees collected and paid for tenants	26,831	19,932	-	-
Payables to contractors on behalf of the Changchun Committee	150,057	-	-	-
Agency fee payables for promotional services	47,700	-	-	-
Obligation to construct a transportation centre	60,445	-	-	-
Earnest money received from potential investor	49,522	-	-	-
Accruals for commission of golf club membership	32,355	-	-	-
Payroll and welfare payable	11,977	9,004	-	-
Accrued transaction cost of CB3	-	15,500	-	15,500
Accrued interest	19,158	6,825	13,307	3,432
Others	96,653	80,088	12,008	2,092
	<u>2,339,360</u>	<u>2,241,817</u>	<u>25,315</u>	<u>21,024</u>

40. AMOUNTS DUE TO RELATED COMPANIES

	Group		Company	
	2009	2008	2009	2008
<u>Amounts due to:</u>				
A substantial shareholder of the Company				
- SRE Investment Holding Ltd.	-	7,973	-	7,973
An associate - New Technology	11,358	11,339	-	-
	<u>11,358</u>	<u>19,312</u>	<u>-</u>	<u>7,973</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

40. AMOUNTS DUE TO RELATED COMPANIES (continued)

As at 31 December 2009, the balances due to related companies were unsecured, interest-free and had no fixed terms of repayment, and they mainly arose from the related party transactions as disclosed in Note 47.

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit for the year to cash generated from/(used in) operations:

	Notes	<u>2009</u>	<u>2008</u>
Profit before tax			
Adjustments for:		1,524,444	1,677,332
Depreciation of property, plant and equipment		135,860	98,614
Impairment of accounts receivable		377	562
Impairment of property, plant and equipment		-	38,827
(Reversal)/impairment of interest in an associate		(104,403)	104,320
Gain on disposal of property, plant and equipment, net		(81)	(542)
Share of profits and losses of associates		93,927	443,186
Fair value loss/(gain) on derivative financial liabilities		89,055	(7,240)
Gain on redemption of CB2		-	(12,783)
Gain on redemption of Guaranteed Senior Notes		(179,102)	-
Fair value gain on investment properties		(476,754)	(1,394,587)
Fair value loss on investment properties under construction		592	-
Gain on disposal of subsidiaries		(43,349)	-
Gain on disposal of unquoted equity investment stated at cost		-	(178,326)
Loss from dilution of an equity interest in an associate (CNTD)		-	41,616
Excess of share of fair value of net assets acquired over considerations for the acquisition of an additional interest in an associate (CNTD)		(300,415)	-
Loss on remeasurement (at acquisition-date fair value) of previously held equity interest in an acquiree (CNTD)		184,398	-
The Excess of acquisition-date amounts of the net assets acquired over the aggregate of consideration transferred, amount of non-controlling interests and acquisition-date fair value of the Group's previously held equity interest in the acquiree (CNTD)		(236,350)	-
Gain on disposal of an investment property		(26,397)	-
Transaction cost allocated to embedded derivatives of CB3		-	10,187
Management share option expenses		4,470	-
Finance income	8	(16,884)	(152,521)
Finance costs	9	179,114	11,063
		<u>828,502</u>	<u>679,708</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

41. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

	Notes	<u>2009</u>	<u>2008</u>
Decrease/(increase) in restricted bank deposits		230,760	(513,434)
Increase in prepaid land lease payments		(1,261,620)	(505,268)
(Increase)/decrease in properties held or under development for sale		(1,421,892)	852,519
Decrease/(increase) in inventories		12,133	(6,213)
(Increase)/decrease in amounts due from associates		6,860	7,973
(Increase)/decrease in prepayments and other current assets		(856,357)	10,656
(Increase)/decrease in other receivables		(600,349)	490,396
Decrease in accounts receivable		123,396	36,089
Increase/(decrease) in accounts payable		74,354	(238,824)
Increase/(decrease) in other payables and accruals		1,322,587	(104,247)
(Decrease)/increase in amounts due to related parties		(12,516)	7,040
Increase in land infrastructure under development for sale		652,379	-
Increase in deferred income		242,963	-
Increase/(decrease) in advances received from the pre-sale of properties under development		<u>3,770,801</u>	<u>(1,220,779)</u>
Cash generated from /(used in) operations		<u>3,112,001</u>	<u>(504,384)</u>

(a) Major non-cash transactions:

	<u>2009</u>	<u>2008</u>
Partial purchase considerations for additional shares in CNTD offset against earnest money for purchase of assets paid by the Company to CNTD, when CNTD was an associate of the Company	132,543	-
Conversion of CB3 into the Company's issued capital and share premium (Note 29)	247,212	-
Distribution of scrip dividends by issuance of new shares	<u>-</u>	<u>46,774</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

42. CONTINGENCIES

Shangzhi Real Estate was established as a limited liability company under the laws of the PRC on 16 October 2008 as a result of the de-merger of Shanghai Mengshan Real Estate Co., Ltd (“Mengshan”), a former indirect 29.91% owned subsidiary of the Company. On 1 July 2008, the owners of Mengshan passed a resolution to split Mengshan into two companies (the “De-merger”) whereby certain portions of the assets, liabilities and RMB10 million of the paid-up capital of Mengshan are to be spun off from Mengshan and injected into a newly set up company, i.e., Shangzhi Real Estate, which is held by the existing shareholders of Mengshan based on their existing proportion of equity interests in Mengshan of 99% and 1%, respectively. Mengshan ceased to be a subsidiary of the Company after the completion of de-merger in October 2008.

Under the relevant PRC Laws, Shangzhi Real Estate is jointly liable for all outstanding debts and amounts payable to creditors of Mengshan that were in existence prior to the de-merger. Such debts/amounts owing to creditors of Mengshan that Shangzhi Real Estate is jointly liable for as at 31 December 2009 amounted to approximately HK\$1.22 million (2008: HK\$2.49 million).

43. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (Note 17) under operating lease arrangements, with leases negotiated for terms mainly ranging from 1 to 16 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2009, the Group had total future minimum lease receivables under operating leases with its tenants falling due as follows:

Group

	<u>2009</u>	<u>2008</u>
Within one year	175,055	103,231
In the second to fifth years, inclusive	521,999	260,910
After five years	360,283	56,589
	<u>1,057,337</u>	<u>420,730</u>

The contingent rental income recognised in 2009 was HK\$4,564 thousand (2008: HK\$1,131 thousand).

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

43. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 3 to 5 years, and those for office equipment are for terms ranging between 2 and 5 years.

At 31 December 2009, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	<u>2009</u>	<u>2008</u>
Within one year	8,998	7,589
In the second to fifth years, inclusive	<u>14,537</u>	<u>5,931</u>
	<u>23,535</u>	<u>13,520</u>

Company

	<u>2009</u>	<u>2008</u>
Within one year	5,259	-
In the second to fifth years, inclusive	<u>11,394</u>	-
	<u>16,653</u>	-

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

44. COMMITMENTS

In addition to the operating lease commitments detailed in Note 43(b) above, the Group and the Company had the following capital commitments at the end of the reporting period:

	Group		Company	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Contracted, but not provided for				
Investment property under construction	114,911	-	-	-
Land infrastructure under development	2,517,112	-	-	-
Properties held or under development for sale	2,351,719	2,776,361	50,000	-
Consideration for potential business combination	853,634	108,498	-	108,498
Capital contributions to be invested	-	2,325	-	2,325
Property, plant and equipment and leasehold land	<u>306,664</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>6,144,040</u>	<u>2,887,184</u>	<u>50,000</u>	<u>110,823</u>
Authorised, but not contracted for				
Investment property under construction	192,011	-	-	-
Land infrastructure under development	6,033,393	-	-	-
Properties held or under development for sale	3,163,732	1,740,937	-	-
Property, plant and equipment and leasehold land	<u>2,875,480</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>12,264,616</u>	<u>1,740,937</u>	<u>-</u>	<u>-</u>
	<u>18,408,656</u>	<u>4,628,121</u>	<u>50,000</u>	<u>110,823</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

45. BUSINESS COMBINATIONS

(1) CNTD

CNTD which was previously an associate of the Company was deemed as a subsidiary of the Company on 9 September 2009. The details of the changes in equity interest in CNTD are disclosed in Note 20(a)(v).

The fair value of the identifiable assets and liabilities of CNTD* acquired on 9 September 2009 and the corresponding carrying amounts immediately before 9 September 2009 were as follows:

	Fair value at the date of acquisition	Previous carrying amount
Cash and cash equivalents	190,403	190,403
Restricted bank balances	8,804	8,804
Accounts receivable	402,336	402,336
Amounts due from associates	2,187	2,187
Other receivables	24,971	24,971
Inventories	4,666	4,666
Land infrastructure under development for sale	5,060,669	4,808,585
Prepayments	16,309	16,309
Investments in associates	227	227
Property, plant and equipment (Note 16)	1,469,155	1,457,606
Deferred tax assets (Note 34)	150,237	150,044
Completed investment properties (Note 17)	549,189	549,189
Prepaid land lease payments (Note 18)	373,158	357,176
Investment properties under construction (Note 17)	126,914	126,914
Non-current trade receivables	57,274	57,274
Other assets	80,734	80,734
Interest-bearing bank borrowings	(1,351,412)	(1,351,412)
Accounts payable	(1,934,656)	(1,934,656)
Amounts due to related parties	(4,540)	(4,540)
Tax payable	(297,298)	(297,298)
Advances from customers	(27,903)	(27,903)
Other payables and accruals	(346,132)	(346,132)
Deferred income	(1,121,656)	(1,121,656)
Deferred tax liabilities (Note 34)	(70,096)	-
Guaranteed Senior Notes (Note 32)	(94,452)	(94,452)
Convertible bonds – host debt	(157,244)	(157,244)
Non-controlling interests (at their proportionate share of identifiable net assets)	(1,721,683)	(399,348)
	<u>1,390,161</u>	<u>2,502,784</u>
Excess over the cost of a business combination recognised in profit and loss	<u>(236,350)</u>	
Consideration	<u>1,153,811</u>	
Satisfied by:		
Fair value of equity interest previously held	997,888	
Cash consideration paid for the equity component of CNTD's convertible bonds ("CNTD CB") issued to a wholly owned subsidiary of the Company	<u>155,923</u>	
	<u>1,153,811</u>	

* The identifiable assets and liabilities of CNTD at the acquisition date above include the proceeds received by CNTD from the issuance of CNTD CB (which was used by CNTD to settle the partial repurchase of CNTD Guaranteed Senior Notes at the same time as the issuance of CNTD CB) and include the liability (i.e. host debt) component of CNTD CB but excluding the equity component of CNTD CB. Only the cash paid for CNTD CB equity component was regarded as the part of the consideration paid to acquire the equity interests in CNTD.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

45 BUSINESS COMBINATIONS (continued)

Since its acquisition, CNTD contributed a profit of HK\$220 million to the consolidated profit for the year ended 31 December 2009.

Had the combination taken place at the beginning of the year ended 31 December 2009, the revenue of the Group and the profit of the Group for the year ended 31 December 2009 would have been HK\$2,815,332 thousand and HK\$908,170 thousand, respectively.

(2) Lushan

In December 2009, a non-wholly owned subsidiary of the Company completed the acquisition of a 55% equity interest in Lushan, a property development company located in Shanghai City, the PRC.

The fair values of the identifiable assets and liabilities of Lushan as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value at date of acquisition	Previous carrying amount
Cash and cash equivalents	49,118	49,118
Prepaid land lease payment (Note 18)	316,979	285,125
Deferred tax liability (Note 34)	(7,963)	-
Other interest-bearing borrowings	(281,658)	(281,658)
Non-controlling interests (at their proportionate share of identifiable net assets)	<u>(34,415)</u>	<u>-</u>
	42,061	<u>52,585</u>
Goodwill on acquisition (Note 19)	<u>5,582</u>	
Total consideration	<u>47,643</u>	
Satisfied by:		
Cash	<u>47,643</u>	

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries during the year is as follows:

	<u>CNTD</u>	<u>Lushan</u>	<u>Total</u>
Cash consideration paid for equity component of CNTD CB	(155,923)	n/a	n/a
Cash consideration paid for host debt component of CNTD CB	<u>(157,244)</u>	<u>n/a</u>	<u>n/a</u>
Total consideration	(313,167)	(47,643)	(360,810)
Cash and cash equivalents acquired	<u>190,403</u>	<u>49,118</u>	<u>239,521</u>
Net (outflow)/inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(122,764)</u>	<u>1,475</u>	<u>(121,289)</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

45. BUSINESS COMBINATIONS (continued)

No profit or loss or revenue contributed by Lushan as the acquisition was completed near the end of the reporting period.

Had the combination taken place at the beginning of the year ended 31 December 2009, the impact on the Group's revenue and operating result was minimal.

46. DISPOSAL OF SUBSIDIARIES

At the end of November 2009, the Group disposed of its interests in Shenyang Huarui New Century Hotel Management Ltd., Shenyang Richgate Lexington Hotel Management Co., Ltd. and Shenyang Huarui Shiji Investment Development Company Limited (Note 20(a)(i)(ii)).

	<u>2009</u>
Net assets at the date of disposal:	
Cash and bank balances	3,718
Accounts receivable	3,793
Prepayments and other receivables	579,679
Inventories	3,569
Property, plant and equipment (Note 16)	322,266
Properties held or under development for sale	120,309
Prepaid land lease payments (Note 18)	843,871
Deferred assets	559
Accounts payable	(153,865)
Employee benefit payables	(775)
Tax payable	(1,203)
Advances from customers	(31,912)
Other payables and accruals	(1,230,506)
Deferred tax liabilities (Note 34)	(28,942)
Non-controlling interests	<u>(210,974)</u>
Waiver of amounts due from a subsidiary upon disposal of the subsidiary	219,587
	<u>37,538</u>
Gains on disposal of subsidiaries (Note 6)	257,125
	<u>43,349</u>
	<u>300,474</u>
Satisfied by:	
Consideration receivable	<u>300,474</u>

An analysis of the net outflows of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	<u>2009</u>
Consideration receivable	300,474
Less: Amounts not yet received (Note 26)	<u>(300,474)</u>
Cash received up to date of the end of the reporting period	-
Cash and bank balances disposed of	<u>(3,718)</u>
Net outflow of cash and cash equivalents as a result of the disposal of subsidiaries	<u>(3,718)</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. RELATED PARTY TRANSACTIONS

GROUP

In addition to the related party transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties.

SRE Investment Holding Limited owned 34.64% of the Company's shares as at 31 December 2009. The remaining 65.36% of the shares are held by various different shareholders.

(a) Related party transactions carried out during the year:

i) Sales to and purchases from associates

	<u>2009</u>	<u>2008</u>
Portion of the Group's consideration for purchase of land plots (developed by CNTD*) that CNTD is entitled to receive (i)	329,070	249,482
Construction of infrastructure for an intelligent network for CNTD (ii)	-	2,011
Sale of goods to Broadband (ii)	<u>4,074</u>	<u>5,457</u>

* CNTD was deemed as a subsidiary of the Company since 9 September 2009 (For details, please refer to Note 20(a)(v)). Therefore, transactions between the Group and CNTD before 9 September 2009 are disclosed as transactions with associates.

(i) During the period from 1 January 2009 to 9 September 2009, the Group purchased a parcel of land (2008: three parcels), developed by CNTD, through public bidding procedures conducted by the relevant government authorities for the purpose of property development. Total purchase considerations for such parcels of land were HK\$479,346 thousand (2008: HK\$356,395 thousand). As a result, according to the arrangements between government authorities and CNTD, CNTD is entitled to receive, from the government authorities, an agreed portion of the purchase considerations for such parcels of land.

(ii) The sales were based on negotiated prices.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

47. RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions carried out during the year (continued):

ii) Loan guarantee

	<u>2009</u>	<u>2008</u>
Guarantee provided for loans borrowed by Broadband, an associate	-	4,082
The Group's bank borrowings guaranteed by Mr. Shi Jian (Chairman) (Note 31)	<u>400,000</u>	<u>-</u>

During the year ended 31 December 2009, Broadband repaid its HK\$10.2 million term loan. The guarantee provided by Wingo Infrastructure for 40% of above loan was released following the loan repayment by Broadband.

iii) Compensation of key management personnel of the Group

	<u>2009</u>	<u>2008</u>
Salaries and other short-term employee benefits	15,309	14,736
Share-based payments (MSOP)	<u>1,924</u>	<u>-</u>
	<u>17,233</u>	<u>14,736</u>

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

48. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

<u>Financial assets</u>	<u>2009</u>	<u>2008</u>
Loans and receivables		
- Amounts due from associates	1,825	138,968
- Other receivables	1,329,071	642,145
- Accounts receivable	507,687	18,165
- Cash and bank balances	<u>4,602,822</u>	<u>1,575,476</u>
	<u>6,441,405</u>	<u>2,374,754</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

48. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

<u>Financial liabilities</u>	<u>2009</u>	<u>2008</u>
Financial liabilities at amortised cost		
- Interest-bearing bank and other borrowings	7,532,507	4,540,754
- Guaranteed senior notes, non-current portion	552,463	1,537,947
- Guaranteed senior notes, current portion	95,813	-
- Convertible bonds - host debts	312,219	62,008
- Accounts payable	3,176,373	1,357,377
- Amount due to related companies	11,358	19,312
- Others	2,020,244	2,228,885
Financial liabilities at fair value through profit or loss		
- Derivative financial liabilities	-	88,470
	<u>13,700,977</u>	<u>9,834,753</u>
Company		
<u>Financial assets</u>	<u>2009</u>	<u>2008</u>
Loans and receivables		
- Dividends receivable from subsidiaries	727,651	390,573
- Advances to subsidiaries	1,346,117	1,073,459
- Amounts due from associates	-	132,438
- Other receivables	86	-
- Cash and bank balances	84,821	170,687
	<u>2,158,675</u>	<u>1,767,157</u>
<u>Financial liabilities</u>	<u>2009</u>	<u>2008</u>
Financial liabilities at amortised cost		
- Interest-bearing bank and other borrowings	339,316	359,485
- Guaranteed senior notes	552,463	1,537,947
- Convertible bonds - host debts	312,219	62,008
- Other payables	25,311	21,020
Financial liabilities at fair value through profit or loss		
- Derivative financial liabilities	-	88,470
	<u>1,229,309</u>	<u>2,068,930</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

49. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

The Group and Company did not have any financial assets or financial liabilities measured at fair value as at 31 December 2009.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, convertible bonds, guaranteed senior notes, other interest-bearing loans, and cash and bank deposits. The main purpose of these financial instruments is to raise funds to finance the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The Group does not enter into derivative transactions for trading purposes, the derivative instruments issued or held by the Group are derivatives embedded in financial instruments issued by the Group for financing. The Group's accounting policies in relation to those embedded derivatives are set out in Note 2.4 to the financial statements.

The main risks arising from the Group's financial instruments are interest rate risk, price risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in interest rates relates primarily to its interest-bearing bank and borrowings. The Group does not use derivative financial instruments to manage its interest rate risk. The interest rates and terms of repayments of the borrowings are disclosed in Note 31.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). The Group's and the Company's equity is not affected, other than the consequential effect on retained profits (a component of the Group's and the Company's equity) by the changes in profit before tax.

	Group		Company	
	2009	2008	2009	2008
Changes in variables – RMB interest rate	Impact on profit before tax	Impact on profit before tax	Impact on profit before tax	Impact on profit before tax
+ 50 basis points	(32,675)	(15,869)	-	-
– 50 basis points	32,675	15,869	-	-
Changes in variables – HK\$ interest rate				
+ 50 basis points	(3,300)	(2,530)	(1,300)	(1,080)
– 50 basis points	3,300	2,530	1,300	1,080

Price risk

Equity price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's price risk exposure relates to financial instruments (principally the embedded derivatives in the convertible bonds, other than equity components) whose values will fluctuate as a result of changes in the market prices of the Company's own shares. The embedded derivatives in the CB3, which existed as at 31 December 2008, have been extinguished with the conversion of CB3 during the year ended 31 December 2009. Meanwhile, the embedded derivatives (excluding the separated conversion option which was classified as equity) in CB4, which are considered closely related to host debt, are not separated from the host debt. Therefore, no material financial instruments held by the Group are exposed to price risk as at 31 December 2009.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the market prices of the Company's own shares, with all other variables held constant, of the Group's and the Company's profit before tax (due to changes in the fair value of embedded derivatives in the CB3). The Group's and the Company's equity is not affected, other than the consequential effect on retained profits (a component of the Group's and the Company's equity) by the impact on profit before tax as disclosed below.

GROUP AND COMPANY

Increase/(decrease) in market prices of the Company's own shares	2009	2008
	Impact on profit before tax	Impact on profit before tax
+ 50%	-	(50,396)
- 50%	-	33,559

Foreign currency risk

Most of the Group's operating entities operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk with only limited exposure arising primarily with respect to cash at banks, guaranteed senior notes, convertible bonds, bank borrowings etc. denominated in United States dollar ("US\$") or Hong Kong dollar ("HK\$").

The Renminbi is not a freely convertible currency. The conversion of the Renminbi into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US\$ and the HK\$ exchange rates, with all other variables held constant, of the Group's and the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities). The Group's and the Company's equity is not affected, other than the consequential effect on retained profits (a component of the Group's and the Company's equity) by the impact on profit before tax as disclosed below.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

Foreign currency risk (continued)

	Group		Company	
	2009	2008	2009	2008
Changes in exchange rate of US\$ against Renminbi	Impact on profit before tax	Impact on profit before tax	Impact on profit before tax	Impact on profit before tax
+ 5%	(26,889)	(82,782)	(27,741)	(84,645)
- 5%	26,889	82,782	27,741	84,645
Changes in exchange rate of HK\$ against Renminbi				
+ 5%	(32,405)	(18,773)	(13,379)	(3,191)
- 5%	32,405	18,773	13,379	3,191

Credit risk

Credit risk arises from cash at banks, accounts receivable, other receivables and amounts due from associates, the balances of which represent the maximum credit risk exposure of the Group. For the sale of developed properties to retail customers, consideration would be settled in cash or customers' purchase would be financed by mortgage loans provided by banks. Receivable balances are monitored on an ongoing basis, other than the significant receivables in Note 26 and Note 27, there is no other significant concentration of credit risk within the Group as other debtors of the Group's receivables are widely dispersed and the majority of the Group's financial assets are cash at banks as at 31 December 2009.

The table below shows the maximum exposure to credit risk for the assets subject to credit risk at the end of the reporting period. The maximum exposure is shown gross, before the effect of mitigation through any collateral held or other credit enhancement.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

Credit risk (continued)

	<u>Group</u>		<u>Company</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<u>Financial assets</u>				
Loans and receivables				
- Dividends receivable from subsidiaries	-	-	727,651	390,573
- Advances to subsidiaries	-	-	1,346,117	1,073,459
- Amounts due from associates	1,825	138,968	-	132,438
- Other receivables	1,329,071	642,145	86	-
- Accounts receivable	507,687	18,165	-	-
- Cash at banks	4,601,002	1,573,919	84,790	170,673
Total credit risk exposure	<u>6,439,585</u>	<u>2,373,197</u>	<u>2,158,644</u>	<u>1,767,143</u>

Liquidity risk

The Group maintains sufficient liquidity at all times with a financial planning system which is used to monitor the Group's future state of liquidity as is evident from the results of the Group's strategic and planning process. A 12-month forecast of fund requirements is updated monthly for the latest developments.

Other than properties developed for sale, the Group also develops and holds properties for long-term operation, such as hotel properties and investment properties. Such long-term assets have constituted an increasing proportion of total assets in recent years, which brings liquidity risk to the Group. In order to mitigate the liquidity risk, the Group adjusted its financing strategy to get more long-term borrowings and increase equity, through the issuance of convertible bonds, as well as new shares.

The Group has developed strategic relationship with certain major state-owned banks that will normally provide financing to the Group when approval from the relevant government authorities for the commencement of a project is obtained. The Group also seeks financing from overseas markets through close cooperation with several world-wide bankers.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

Liquidity risk (continued)

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	2009					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	-	373,487	1,580,786	4,760,896	2,443,877	9,159,046
Guaranteed Senior Notes	104,572	-	47,797	673,667	-	826,036
Convertible bonds	-	15,227	15,227	629,365	-	659,819
Accounts payable	543,610	428,506	1,846,099	358,158	-	3,176,373
Others	441,699	28,175	1,561,728	-	-	2,031,602
	<u>1,089,881</u>	<u>845,395</u>	<u>5,051,637</u>	<u>6,422,086</u>	<u>2,443,877</u>	<u>15,852,876</u>

	2008				
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Total
Interest-bearing bank and other borrowings	-	397,227	1,337,909	3,261,155	4,996,291
Guaranteed Senior Notes	-	-	133,693	2,017,987	2,151,680
Convertible bonds	-	-	4,125	206,250	210,375
Accounts payable	-	163,317	1,194,060	-	1,357,377
Others	13,663	112,832	1,771,714	295,420	2,193,629
	<u>13,663</u>	<u>673,376</u>	<u>4,441,501</u>	<u>5,780,812</u>	<u>10,909,352</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

Liquidity risk (continued)

Company

	2009					Total
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	
Interest-bearing bank and other borrowings	-	1,476	51,701	317,104	-	370,281
Guaranteed Senior Notes	-	-	47,797	673,667	-	721,464
Convertible bonds	-	15,227	15,227	629,365	-	659,819
Others	10,000	15,311	-	-	-	25,311
	<u>10,000</u>	<u>32,014</u>	<u>114,725</u>	<u>1,620,136</u>	<u>-</u>	<u>1,776,875</u>
	2008					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Interest-bearing bank and other borrowings	-	44,025	106,917	234,285	-	385,227
Guaranteed Senior Notes	-	-	133,693	2,017,987	-	2,151,680
Convertible bonds	-	-	4,125	206,250	-	210,375
Others	7,973	21,020	-	-	-	28,993
	<u>7,973</u>	<u>65,045</u>	<u>244,735</u>	<u>2,458,522</u>	<u>-</u>	<u>2,776,275</u>

Fair values of financial assets and liabilities

Fair value estimates are made at a specific point in time based on relevant market information and information about the various financial instruments. When an active market exists, such as an authorised securities exchange, the market value is the best reflection of the fair values of financial instruments. For financial instruments where there is no active market or when current market prices are not available, fair value is determined using valuation techniques (Note 2.4).

The Group's financial assets mainly include cash and bank balances and receivables.

The Group's financial liabilities mainly include interest-bearing bank and other borrowings, guaranteed senior notes, convertible bonds (including embedded derivatives other than equity components) and payables.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

Fair values of financial assets and liabilities (continued)

Except as indicated below, the fair values of the Group's and the Company's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and appropriate valuation models.

GROUP

	<u>2009</u>		<u>2008</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Guaranteed senior notes	648,276	592,577	1,537,947	920,415
Convertible bonds - host debts	<u>312,219</u>	<u>371,041</u>	<u>62,008</u>	<u>69,381</u>

COMPANY

	<u>2009</u>		<u>2008</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Guaranteed senior notes	552,463	488,005	1,537,947	920,415
Convertible bonds - host debts	<u>312,219</u>	<u>371,041</u>	<u>62,008</u>	<u>69,381</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES
(continued)

Capital management (continued)

As the Group is mainly engaged in the development of properties and large-scale new towns, it needs substantial amount of funds. The Group monitors capital using a gearing ratio, as defined by management for capital management purposes, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, the host debt portion of convertible bonds, Guaranteed Senior Notes, accounts payable, and other payables and accruals, less cash and bank balances. Capital comprises all components of equity (i.e. share capital and premium, other reserves, retained profits and non-controlling interests). Such gearing ratios, as defined by management for capital management purposes, at the end of the reporting period were as follows:

	<u>2009</u>	<u>2008</u>
Interest-bearing bank and other borrowings (Note 31)	7,532,507	4,540,754
Accounts payable (Note 38)	3,176,373	1,357,377
Other payables and accruals (Note 39)	2,339,360	2,241,817
Convertible bonds – host debts (Note 35)	312,219	62,008
Guaranteed Senior Notes (Note 32)	648,276	1,537,947
Less: Cash and bank balances (Note 28)	<u>(4,602,822)</u>	<u>(1,575,476)</u>
Net debt	9,405,913	8,164,427
Equity attributable to owners of the parent	8,191,741	6,472,585
Non-controlling interests	3,115,939	1,400,776
Capital	<u>11,307,680</u>	<u>7,873,361</u>
Capital and net debt	<u>20,713,593</u>	<u>16,037,788</u>
Gearing ratio	<u>45%</u>	<u>51%</u>

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

51. EVENTS AFTER THE REPORTING PERIOD

- (a) On 10 February 2010, Sinopower, a wholly-owned subsidiary of the Company, entered into the conditional sale and purchase agreement (the “Acquisition Agreement”) with an unrelated third party (the “Vendor”), pursuant to which Sinopower has conditionally agreed to purchase the entire issued share capital of Big Prime Limited (the “Sale Share”) and the unsecured, non-interest-bearing and repayable on demand loans in the sum of US\$2,874,257 (approximately HK\$22,419 thousand) (the “Loan”) from the Vendor at the consideration of RMB305,000 thousand (approximately HK\$346,000 thousand), which will be paid by Sinopower in cash at the completion of the Acquisition Agreement. Big Prime Limited is an investment holding company incorporated in the BVI and will be indirectly holding a 9% equity interest in Huarui Asset Management, a 51% owned subsidiary of the Company, through its wholly-owned Hong Kong subsidiary upon the completion of the Hong Kong subsidiary acquisition. Upon completion of the acquisition, Huarui Asset Management will become a 60% owned subsidiary of the Company.

Pursuant to the Acquisition Agreement, the Vendor has granted to Sinopower an irrevocable call option (the “Call Option”) whereby Sinopower can require the Vendor to sell or procure the sale to Sinopower up to 40% of the equity interest (“Option Interest”) in Huarui Asset Management at a strike price equal to 90% of the fair value of the Option Interest as at the date being one month immediately preceding the date of the relevant option exercise notice, which shall be arrived at with reference to valuation of the retail property known as Shenyang Richgate Shopping Mall (including the land use rights) by an independent property valuer to be appointed by Sinopower and agreed by the Vendor. The Call Option may be exercised by Sinopower more than once from time to time and at any time during the period of two years from the completion date.

The Acquisition Agreement and all transactions contemplated thereunder and any other agreements or documents in connection therewith have been approved, confirmed and/or ratified by the Special General Meeting of the Company held on 29 March 2010.

The completion of the acquisition is conditional upon certain conditions being satisfied or waived by Sinopower on or before 10 November 2010. Up to the date of issuance of these financial statements, this acquisition transaction has not been completed because certain conditions precedent have not been fulfilled.

SRE GROUP LIMITED
NOTES TO FINANCIAL STATEMENTS

31 December 2009

(Amounts expressed in thousands of Hong Kong dollar unless otherwise stated)

51. EVENTS AFTER THE REPORTING PERIOD (continued)

- (b) In February 2010, the Company has entered into a Financial Services Co-operation Agreement with a bank, whereby the bank has agreed in principle, upon fulfilment of certain conditions, to make available to the Company term loan facilities in an aggregate amount of not more than RMB10 billion (equivalent to HK\$11.36 billion). The agreement will expire after 5 years and is renewable subject to mutual agreement between the two parties.

52. COMPARATIVE AMOUNTS

As further explained in Note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation. The reclassification had no impact on the comparative statement of financial position.

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2010.