SRE GROUP LTD.

SRE GROUP LIMITED
上置集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1207)

UNAUDITED INTERIM RESULT FOR THE SIX MONTHS ENDED 30 JUNE 2011

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2011
Revenue (HK$'000)	**2,382,651**
Net Profit attributable to owners of the parent (HK$'000)	**149,233**
Basic earnings per share (HK cents)	**3.70**
Dividend per share-Interim (HK cents)	–

INTERIM RESULTS

The Board of Directors ("the Board") of SRE Group Limited is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2011 together with comparative figures for the previous corresponding period in 2010. The unaudited interim financial statements for the six months ended 30 June 2011 have been reviewed by the Company's Audit Committee.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

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

	Notes	**2011 Unaudited**	2010 Unaudited
Revenue	*3*	**2,382,651**	1,984,218
Cost of sales		**(1,744,131)**	(1,238,411)
Gross profit		**638,520**	745,807
Selling and marketing costs		**(84,885)**	(66,281)
Administrative expenses		**(209,910)**	(243,788)
Other gains/(losses) – net	*4*	**93,556**	(26,868)
Operating profit		**437,281**	408,870
Finance income		**54,573**	18,276
Finance costs		**(198,104)**	(121,241)
Finance costs – net		**(143,531)**	(102,965)
Share of profits and losses of associates		**3,344**	8,359
Profit before tax		**297,094**	314,264
Income tax expense	*5*	**(226,735)**	(279,233)
Profit for the period		**70,359**	35,031
Profit attributable to:			
Owners of the parent		**149,233**	160,771
Non-controlling interests		**(78,874)**	(125,740)
Other comprehensive income			
Exchange differences on translation of financial statements into presentation currency		**271,763**	107,788
Other comprehensive income for the period, net of tax		**271,763**	107,788

	Notes	**2011 Unaudited**	2010 Unaudited
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**342,122**	142,819
Total comprehensive income attributable to:			
Owners of the parent		**357,366**	237,150
Non-controlling interests		**(15,244)**	(94,331)
		342,122	142,819
Earnings per share attributable to ordinary equity holders of the parent			
– Basic		**3.70 cents**	4.34 cents
– Diluted		**3.70 cents**	4.26 cents

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

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

	Notes	**30 June 2011 Unaudited**	31 December 2010 Audited
ASSETS			
Non-current assets			
Property, plant and equipment		**2,661,295**	2,627,299
Completed investment properties		**6,844,956**	6,624,338
Investment properties under construction		**114,238**	111,646
Prepaid land lease payments		**405,427**	399,796
Goodwill		**687,574**	671,979
Investments in associated companies		**69,003**	72,182
Investments in jointly-controlled entities		**48,341**	–
Derivative financial asset		**57,191**	55,894
Deferred tax assets		**441,652**	432,186
Non-current accounts receivable	*8*	**93,803**	109,598
Other non-current assets		**57,075**	57,974
		11,480,555	11,162,892
Current assets			
Prepaid land lease payments		**11,924,763**	11,017,446
Properties held or under development for sale		**6,827,591**	6,124,508
Land development for sale		**4,885,735**	4,416,924
Inventories		**79,885**	29,759
Amounts due from associates		–	8,113
Prepayments and other current assets		**845,080**	671,331
Other receivables		**1,311,021**	1,186,348
Accounts receivable	*8*	**243,403**	607,865
Prepaid income tax		**294,517**	113,854
Cash and bank balances		**4,100,035**	5,402,966
		30,512,030	29,579,114
Total assets		**41,992,585**	40,742,006

	Notes	30 June 2011 Unaudited	31 December 2010 Audited
EQUITY AND LIABILITIES			
Equity			
Issued capital and premium		**5,366,779**	4,736,489
Other reserves		**1,352,661**	1,142,493
Retained profits		**2,690,221**	2,665,801
Equity attributable to owners of the parent		**9,409,661**	8,544,783
Non-controlling interests		**2,763,300**	2,782,378
Total equity		**12,172,961**	11,327,161
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**9,578,320**	8,863,028
Convertible bonds-host debts		**380,532**	354,548
Guaranteed senior notes		**558,768**	557,322
Deferred income from sale of golf club membership		**636,903**	632,478
Deferred tax liabilities		**2,138,491**	2,076,251
		13,293,014	12,483,627
Current liabilities			
Interest-bearing bank and other borrowings		**3,266,943**	3,169,554
Advances received from the pre-sale of properties under development		**4,548,691**	4,546,137
Accounts payable		**2,914,422**	3,358,631
Other payables and accruals		**2,556,598**	2,421,148
Current income tax liabilities		**2,277,105**	2,323,911
Deferred income arising from land development		**962,851**	1,111,837
		16,526,610	16,931,218
Total liabilities		**29,819,624**	29,414,845
Total equity and liabilities		**41,992,585**	40,742,006
Net current assets		**13,985,420**	12,647,896
Total assets less current liabilities		**25,465,975**	23,810,788

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

Note to the Financial Statements
(Amounts expressed in HK$'000 unless otherwise stated)

1. Basis of preparation and accounting policies

1.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

1.2 Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of new and revised standards and interpretations as of 1 January 2011, as described below:

HKAS 24 (Revised): Related Party Disclosures

The revised HKAS 24 clarifies and simplifies the definition of a related party. The revised standard also provides some relief for government-related entities to disclose details of all transactions with other government-related entities (as well as with the government itself). Currently, the revision did not have significant impact on the Group's financial statements.

HKAS 32 Amendment: Classification of Rights Issues

The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met. Currently, the amendment did not have significant impact on the Group's financial statements.

HKFRS 1 Amendment: Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters

HKFRS 1 Amendment relieves first-time adopters of HKFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to HKFRS 7). It thereby ensures that first-time adopters benefit from the same transition provisions that Amendments to HKFRS 7 provide to current HKFRS preparers. Currently, the amendment did not have significant impact on the Group's financial statements.

HK(IFRIC)-Int 14 Amendment: Prepayments of a Minimum Funding Requirement

The 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 the future contributions is thus equal to the sum of (i) the prepayment of 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. Currently, the amendments did not have significant financial impact on the Group's financial statements.

HK(IFRIC)-Int 19: Extinguishing Financial Liabilities with Equity Instruments

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 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 recognized 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. Currently, the interpretation did not have significant financial impact on the Group's financial statements.

Improvements to HKFRSs (issued May 2010)

In May 2010, HKICPA issued an omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the amendments resulted in certain changes to accounting policies, but did not have significant impact on the financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

2. Operating Segment Information

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

- The property development segment develops and sells residential and commercial properties;
- The land development segment engages in land infrastructure development and 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 resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

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

An analysis by business segment is as follows:

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

	Six months ended 30 June 2010 (unaudited)					
	Property development	Land development	Property leasing	Hotel operations	Corporate and other operations	Total
Segment revenue						
Sales to external customers	1,579,548	147,420	68,210	125,485	63,555	1,984,218
Intersegment sales	–	–	–	–	19,638	19,638
	1,579,548	147,420	68,210	125,485	83,193	2,003,856
Reconciliation:						
Elimination of intersegment sales						(19,638)
Revenue						1,984,218
Segment profit/(loss)	530,399	(48,258)	29,033	(41,030)	(61,274)	408,870
Finance income						18,276
Finance costs						(121,241)
Finance costs – net						(102,965)
Share of profits and losses of associates						8,359
Profit before tax						314,264

3. Revenues

Revenues recognized during the period are as follows:

	(unaudited) For the six months ended 30 June	
	2011	2010
Sale of development properties	**1,954,504**	1,645,803
Revenue from land development	**279,857**	155,382
Hotel operations	**127,378**	132,159
Revenue from property leasing	**80,232**	75,097
Property management income	**61,128**	32,778
Golf operation	**31,997**	34,616
Revenue from construction of infrastructure for an intelligent network	**4,316**	2,794
Other revenue	**749**	25,302
	2,540,161	2,103,931
Less: Business tax and surcharges (a)	**(157,510)**	(119,713)
Total revenue	**2,382,651**	1,984,218

(a) Business tax and surcharges

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

Government surcharges are calculated at certain percentages of business tax.

4. Other Gains/(losses) – net

	(unaudited) For the six months ended 30 June 2011	2010
Donor funds	**–**	(17,092)
Fair value gain/(loss) on investment properties	**89,980**	(865)
Loss on disposals of property, plant and equipment	**–**	(6,802)
Others	**3,576**	(2,109)
	93,556	(26,868)

5. Tax

	(unaudited) For the six months ended 30 June 2011	2010
Current taxation		
– Mainland China income tax	**120,037**	130,608
– Mainland China LAT	**92,244**	121,223
	212,281	251,831
Deferred taxation		
– Mainland China income tax	**(6,494)**	(10,201)
– Mainland China withholding tax	**32,146**	37,603
– Mainland China LAT	**(11,198)**	–
	14,454	27,402
Total tax charge for the period	**226,735**	279,233

(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 24%.

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

(b) Other income tax

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the 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 2% to 5% on proceeds of the sale and pre-sale of properties.

(d) Mainland China Withholding tax

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

6. Earnings per Share

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holder of the parent of HK$149,233 thousand (2010: HK$160,771 thousand) and the weighted average number of 4,029,502,928 ordinary shares (2010: 3,603,881,194 shares) in issue during the period. The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent of HK$149,230 thousand (2010: HK$157,961 thousand) and the diluted weighted average number of 4,029,502,928 ordinary shares (2010: 3,603,881,194 shares) in issue during the period.

7. Dividend

The Board had resolved not to declare an interim dividend for the six months ended 30 June 2011 (2010: Nil).

8. Accounts Receivable

	30 June 2011 Unaudited	31 December 2010 Audited
Accounts receivable	**253,756**	617,983
Less: Impairment	**(10,353)**	(10,118)
	243,403	607,865
Non-current accounts receivable	**93,803**	109,598
	337,206	717,463

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 sale to its customers for other operations is mainly on credit, the credit terms of the Group are as follows:

– Golf club membership fees: such fees are paid by installments, with a credit term ranging from 2 to 3 years;

– 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, such receivables from the local governments are generally collectible within 6 months after the land sale. However, it may take more than one year for the Group to receive certain portions (e.g. the amount attributable to public utility fee) of the receivables;

– 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 and there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the period under review, the Group recorded a net revenue of approximately HK$2,383 million (2010: HK$1,984 million), an increase of approximately 20% compared with that of the corresponding period of last year. The increase in net revenue was mainly due to the increase in property sales which is expected to further increase for the second half of the year. Profit attributable to owners of the parent amounted to approximately HK$149.2 million (2010: approximately HK$160.7 million), a decrease of approximately 7% compared with that of the corresponding period of last year.

Liquidity and Financial Resources

The Group's liquidity position remains sound. Cash and bank balances amounted to approximately HK$4,100 million as at 30 June 2011 (31 December 2010: approximately HK$5,403 million). Working capital (net current assets) of the Group as at 30 June 2011 amounted to approximately HK$13,985 million (31 December 2010: approximately HK$12,648 million), an increase of approximately 10.6%. Current ratio was at a healthy level of 1.85x (31 December 2010: 1.75x).

As at 30 June 2011, the gearing ratio, being the Group's net borrowings (total borrowings minus cash and bank balance) to total capital (equity plus net borrowings), was 44% (31 December 2010: 40%).

Charges on Assets and Contingent Liabilities

As at 30 June 2011, bank and other borrowings of approximately HK$12,365 million (31 December 2010: approximately HK$11,642 million) were secured by mortgage of the Group's leasehold land, investment properties, property, plant and equipment and properties held or under development for sale, or by pledge of equity interest in subsidiaries and bank deposits.

As at 30 June 2011, the Group had no contingent liabilities (31 December 2010: nil) in respect of guarantees to assist home buyers to obtain mortgage loans from banks and complete mortgage procedures.

Under the relevant PRC Laws, Shanghai Shangzhi Real Estate Development Co., Ltd is jointly liable for all outstanding debts and amounts payable to creditors of Shanghai Meng Shan Real Estate Co., Ltd 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 30 June 2011 amounted to approximately HK$0.6 million.

BUSINESS REVIEW

In 2011, with state and local governments promulgating and implementing a series of macro-economic control policies, real estate prices and transaction volume have softened to varying degrees in different localities, and the real estate market has gradually become more rational and stable.

Amidst changing macro-economic and real estate market conditions, the Group analysed the situation with a cool head, adhering to our corporate culture and principle of development – be prudent and always have both feet firm on the ground, and at the same time promptly adapted our development strategies to the dynamic regional market conditions and rejuvenated ourselves to ensure a steady and sustainable growth of our business.

REAL ESTATE DEVELOPMENT

Progress in Sales

In the first half of 2011, the Group's major projects up for sale included Cedar Villa Original, Wuxi Jiangnan Rich Gate, Lake Malaren Garden, Haikou Bund Centre and Shenyang Albany and Central-Ring Centre.

From January to June 2011, contract sales amounted to approximately RMB1,018.92 million, with GFA totalling 59,418 m^2. In which:

Cedar Villa Original

The Cedar Villa Original rests on Lake Malaren, Luodian Nordic New Town, Baoshan District, Shanghai. It boasts the benefits of proximity to Lake Malaren and high-end facilities including a golf course, featuring a golden Tuscany style of authentic Italian origin. The Land for Cedar Villa Original was purchased in April 2009, and pre-sale commenced after only twelve months, i.e. in May of 2010, and enjoyed a favorable market response. A total of 103 units were sold in the first half of 2011, with a total area of 12,720 m^2, yielding revenue of RMB312.16 million (an average of RMB24,541 per m^2).

Wuxi Jiangnan Rich Gate

Wuxi Jiangnan Rich Gate resides in the northeastern part of Wuxi New District. Being another high-end product of SRE Group, the project builds exquisite townhouses in Wuxi. Sale commenced in October of 2010, and has been enjoying a favorable response. A total of 21 villas were sold in the first half of 2011, with a total area of 6,228 m^2, yielding revenue of RMB92.77 million (an average of RMB14,894 per m^2).

Lake Malaren Garden

Lake Malaren Garden resides in Luodian Nordic New Town, Baoshan District, Shanghai. These golf club garden villas feature eclectic European architecture, a palatable harmony with the natural beauty, the architectural features and the cultural environment of the Nordic New Town. These coupled with the Rich Gate brand have attracted much attention. A total of 17 villas were sold in the first half of 2011, with a total area of 3,143 m^2, yielding revenue of RMB85.30 million (an average of RMB27,144 per m^2).

Haikou Bund Centre

In 2010 and in the first half of 2011, Hainan's real estate market first witnessed vigorous sales, brought on by the central government's policy of positioning the province as an International Tourism Island, then the subsequent cooling off as a result of the strict macro-control measures by both the central and local governments. The Haikou Bund Centre project managed to adjust its strategies proactively, aptly and swiftly, selling 15 residential units of the Bund Centre (phase-1) from January to June 2011, with a total area of 2,085 m^2, for RMB40.27 million (averaging RMB19,316 per m^2 – an increase of 33% from 2010). Sales proceeds actually received during this period amounted to RMB67.50 million.

Shenyang Albany

Shenyang Albany was first featured in the Spring Housing Fair of Shenyang held on 26 March 2010, with the sales office opened on 9 April and sale for phase-1 of the project commencing on 29 May 2010. In the first half of 2011, a total of 206 units were sold for RMB163.77 million, with a total area of 18,154 m^2 (averaging RMB9,021 per m^2).

Central-Ring Centre

As a landmark of the Shanghai Central Ring business district with all qualities of Grade 5A office buildings and well equipped with all sorts of facilities, the Central-Ring Centre has attracted an increasing number of companies. In the first half of 2011, the sale of the office Tower recorded satisfactory results. A total of 44 units measuring a total area of 7,208 m^2 were sold for RMB210.36 million, (averaging RMB29,185 per m^2).

Progress in Construction

Adhering to development plans and construction timelines delineated at the beginning of 2011, the Group and its subsidiary companies have been carrying out construction works in an orderly and standardized fashion, while making every effort to uphold our high standard of quality. Major projects under construction:

Cedar Villa Original

Construction of Cedar Villa Original is divided into 2 tenders: Tender I: As of 30 June 2011, exterior walls insulation 80% completed, roof surface 90% completed, the plastering of interior walls 95% completed, the main structure, plastering and installation of the underground garage entirely completed. Tender II: On June 22, the owners' committee has examined and accepted the completion of construction and the site is handed over to the contractor for decoration works.

Albany Oasis Garden

In June 2011, foundation construction for B1 floor of the basement under the public lawn of Zhongxing Road was virtually completed, and foundation construction for B2 floor was 30% completed; insulation for staircases and walls of B1 floor was completed, and equipment foundation work was completed.

Lake Malaren Garden

In June 2011, the construction of the buildings for Lake Malaren Garden (Phase III) was 90% completed. The installation of door frames and window frames was completed, the installation of glasses was 90% completed, decoration of exterior walls and the installation of railings were 75% completed, brick pasting on the exterior walls was 90% completed and construction of surrounding walls was 90% completed. Decoration works are about to commence.

Central-Ring Centre

Construction of Building No.6 for Central-Ring Centre commenced on 4 March 2011. As of the end of June 2011, the piling and foundation work have been completed.

Rich Gate Sea View

In the first half of 2011, the greenery work for Rich Gate Sea View had ended. For the relocation of integrated pipelines and wires to Long'an Road East, the laying of sewage and gas pipelines was virtually completed and that of the telecommunications and broad band networks was also completed. The widening of Long'an Road outside the estate is underway, which will help ease the traffic when the high-speed rail commences its operation by the end of the year.

Shenyang Albany

The construction of the substructures and superstructures for Shenyang Albany Phase I was fully completed in the first half of 2011. Painting of exterior walls was virtually completed and stone works for the exterior wall was 98% completed. Interior decoration has already commenced. The whole project is slated for completion by October of this year.

Progress in Relocation

Albany Oasis Garden

Relocation for phase III development is underway. As at the end of June 2011, 1,013 relocation contracts were signed, with 589 households remaining, and relocation was about 62% completed.

Huangpu Bairun

As of the end of June 2011, Bairun Huangpu Project has signed 257 relocation contracts, including 240 households (thus 68% completed), 8 self-employed merchants (thus 57% completed), 9 enterprises (thus 82% completed), and there remained 115 households, 6 self-employed merchants and 2 enterprises to be relocated.

Shenyang Albany

As of the end of June 2011, Shenyang Albany has signed 1,285 relocation contracts with different households, 1,027 of which were compensated by cash payments and 258 were provided substitution flats and the task is 86% completed; As enterprises are concerned, 10 contracts have been signed and the task is 40% completed. There are still approximately 215 households, 15 enterprises and one school pending.

LAND DEVELOPMENT

In the first half of 2011, China New Town Development Limited successfully assigned one parcel of land of Luodian Project through public tender by Shanghai Municipal Planning and Land Resources Management Bureau. On 21 January 2011, the right to use the A1-3 land in Luodian Project was assigned to Sino-Ocean Land (Shanghai) Limited at a price of RMB538 million. With a site area of approximately 35,642 m^2., the land was sold at approximately RMB15,102 per m^2., marking a new record for Luodian Project.

COMMERCIAL PROPERTIES

During the first half of 2011, to cope with changes in market conditions and opportunities arising, we continued to enhance management and operation of our commercial properties, adapt our business strategies for such changes, and leverage on our brand name advantages and management capabilities. As we continued to accumulate knowledges through experiences, we were able to gradually improve our operating results. Details include the following:

Shops at Shanghai Rich Gate

Shanghai Rich Gate Shops achieved full occupancy for the first time from the end of 2009 to the beginning of 2010. Meanwhile, we emphatically continue to build our "Rich Gate" brand. By upholding targets of well servicing our tenants, displaying and selling only premium quality products and promoting a culture for classic things, the Rich Gate Shops will contribute to the cause, and the Rich Gate Shops and the "Rich Gate" brand will forcefully complement each other, seamlessly integrating quality community, quality properties and quality commercial tastes. From January to June 2011, rental income totaled RMB27.51 million.

Shanghai Pullman Skyway Hotel

In 2011, capitalizing on the good opportunities of Expo, Shanghai Pullman Skyway Hotel improved its management, enhanced quality of its services and effectively controlled costs. For the first six months of 2011, the hotel recorded revenue of RMB85.84 million, composed of room revenue of RMB46.72 million and revenue from food and beverages of RMB36.71 million. Gross profit amounted to approximately RMB18 million and the occupancy rate was about 58%.

Shenyang Rich Gate Shopping Mall

Shenyang Rich Gate Shopping Mall combines a wide range of functions, such as shopping, fine food, leisure, entertainment, culture, sports & recreation and services. During the first half of 2011, the Mall adjusted and rationalized its mode of operation and rent structure as well as upgraded the shop exteriors. As of the end of June 2011, leases were entered for a total area of approximately 93,647 m^2, accounting for 83% of the rentable area, and shops occupying a total area of 49,799 m^2 have opened for business. From January to June 2011, rental income totaled RMB25.04 million.

Central-Ring Centre

During the first half of 2011, Central-Ring Centre doubled its efforts to lure leasees. Currently, commercial area of 30,000 m^2, office space of 23,600 m^2 as well as an underground parking garage of 60,000 m^2 are retained as investment properties. For the six months till the end of June 2011, rental income totalled RMB18.24 million, RMB16.97 million of which was lease income while parking fee income totalled RMB1.19 million.

CAPITAL MARKET ACTIVITIES

In March 2011, the controlling shareholder of the Company (SRE Investment Limited) subscribed for 700 million new shares issued by the Company at the price of HK$0.81 per share and the number of shares in issue was thus increased to 4,303,881,194, while percentage of shares held by the controlling shareholder and persons acting in concert with it increased to 45.76% accordingly. (Since certain shareholders elected scrip shares for 2010 dividends, the shares of the Company in issue at the end of June totalled 4,406,624,507.)

On 6 May 2011, the Company and SRE Investment Limited entered into the Convertible Note Subscription Agreement, pursuant to which the SRE Investment Limited has conditionally agreed to subscribe for and the Company has conditionally agreed to issue convertible note in the principal amount of HK$550 million at the conversion price of HK$1.00 per conversion share subject to the terms and conditions of the Convertible Note Subscription Agreement. The convertible note shall bear an interest rate of 2% per annum and mature on the date falling on the fifth anniversary of the date of issue of the Convertible Note. On 14 June 2011, approval has been obtained at the special general meeting of the Company. The transaction has not yet been completed as of 30 June 2011.

Business Outlook

In 2011, China continued to intensify its control over the real estate industry. Both the central and local governments broaden and deepen a number of control policies over commodity houses and affordable houses. In the first quarter of this year, the State Council promulgated what has been hailed as the most severe property control policy ever, the "New Eight Rules by State Council", which aimed at gradually balancing the market supply and demand of houses and directing the real estate market toward a healthy and steady development.

For financial and monetary policies, the Central Bank raised the required reserve ratio six times in the first half of this year. The increase of the required reserve ratio and interest rates for deposit and lending resulted in a credit squeeze, thus making it more difficult for real estate enterprises to have access to capital and for buyers to get mortgages. As a result, the cost for purchasing homes increased and the "wait and see" sentiment of the market gained momentum.

According to the statistics published by the China National Statistics Bureau, total investment in real estate development in the first half of 2011 amounted to RMB2.6250 trillion, an increase of 32.9% over the same period last year. Out of this total amount, investment in residential building development accounted for RMB1.8641 trillion, an increase of 36.1% over the same period of last year. Despite the crushing pressure from the control policies, real estate investment still maintained a high growth momentum. During the same period, the national growth rates of both sales of commodity housing and number of start-up projects slowed down, but was still in the positive zone. However, encumbered by the purchase restrictions, sales in tier one and tier two cities slowed down and even declined by varying degrees.

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

EMPLOYEES

As at 30 June 2011, the Group had retained 3,490 employees in Hong Kong and the PRC. Total staff costs of the Group excluding directors' remuneration, for the period under review amounted to approximately HK$97.5 million. Staff remuneration packages were in line with the prevailing market practice and were determined on the basis of the performance and experience of individual employee.

SHARE OPTION SCHEME

No share options of the Company have been granted, exercised, cancelled or lapsed during the six months ended 30 June 2011.

CNTD'S MANAGEMENT STOCK OPTION PLAN ("MSOP") – MOVEMENT IN THE PERIOD

The following table illustrates the number of and movements in options under MSOP during the period:

	2011 Number of CNTD's share	2010 Number of CNTD's shares (after the share split)
Outstanding at the beginning of the period	**18,393,750**	24,772,500
Forfeited during the period	**–**	(2,250,000)
Exercised during the period	**(4,905,000)**	(4,128,750)
Outstanding at the end of the period	**13,488,750**	18,393,750
Exercisable at the end of the period	**6,131,250**	4,905,000

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

In March 2011, the controlling shareholder of the Company (SRE Investment Limited) subscribed for 700 million new shares issued by the Company at the price of HK$0.81 per share and the shares of the Company in issue was thus increased to 4,303,881,194. Since certain shareholders elected scrip shares for 2010 dividends, the shares of the Company in issue at the end of June totaled 4,406,624,507.

Other than the above, neither the Company nor its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 June 2011.

DIRECTORS' COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Company established an audit committee on 12th November 2001 with terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee has five members comprising the two non-executive Directors and the three independent non-executive Directors. The unaudited interim financial statements for the period ended 30 June 2011 has been reviewed by the Audit Committee.

CORPORATE GOVERNANCE

In April 2005 the Company adopted its own code on corporate governance practices which incorporates all the code provisions in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Throughout the period, the Company complied with the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 except for Code provisions E.1.2, which stipulates that the chairman of the board should attend the annual general meeting. The Chairman of the Board of Directors did not attend the annual general meeting for the year 2011 due to other business commitment.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

The interim report for 2011 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the Stock Exchange website (http://www.hkex.com.hk) in due course.

On behalf of the Board
SRE Group Limited
Shi Jian
Chairman

Hong Kong, China, 30 August 2011

As at the date hereof, the Board comprises five executive directors, namely Mr. Shi Jian, Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong and Mr. Shi Pin Ren; two non-executive directors, namely Mr. Cheung Wing Yui and Mr. Jin Bing Rong and four independent non-executive directors, namely Mr. Jiang Xie Fu, Mr. E Hock Yap, Mr. Zhuo Fumin and Mr. Yuan Pu.

* *For identification purpose only*