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 2012

GROUP FINANCIAL HIGHLIGHTS

	For the six months ended 30 June 2012
Revenue (HK$'000)	**1,992,112**
Net Profit attributable to owners of the parent (HK$'000)	**228,856**
Basic earnings per share (HK cents)	**4.52**
Dividend per share-Interim (HK cents)	–

INTERIM RESULTS

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

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

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

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

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

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

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

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

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

	Notes	30 June 2012 Unaudited	31 December 2011 Audited
EQUITY AND LIABILITIES			
Equity			
Issued capital and premium		**6,004,141**	5,791,714
Other reserves		**1,629,275**	1,689,923
Retained profits		**3,237,747**	3,006,887
Equity attributable to owners of the parent		**10,871,163**	10,488,524
Non-controlling interests		**2,459,040**	2,485,979
Total equity		**13,330,203**	12,974,503
LIABILITIES			
Non-current liabilities			
Interest-bearing bank and other borrowings		**8,034,637**	10,200,708
Guaranteed senior notes		**–**	559,646
Deferred income from sale of golf club membership		**630,326**	643,746
Deferred tax liabilities		**1,935,267**	2,241,957
		10,600,230	13,646,057
Current liabilities			
Interest-bearing bank and other borrowings		**6,273,673**	3,763,889
Convertible bonds – host debts		**544,100**	515,814
Guaranteed senior notes		**560,339**	–
Advances received from the pre-sale of properties under development		**1,767,154**	2,565,079
Trade payables	*9*	**5,980,306**	5,259,024
Other payables and accruals		**2,092,294**	2,001,353
Current income tax liabilities		**2,150,350**	2,216,346
Deferred income arising from land development		**721,908**	713,852
Amount due to related companies		**36,660**	–
		20,126,784	17,035,357
Total liabilities		**30,727,014**	30,681,414
Total equity and liabilities		**44,057,217**	43,655,917
Net current assets		**12,534,417**	13,986,184
Total assets less current liabilities		**23,930,433**	26,620,560

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

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

1. Basis of preparation and accounting policies

1.1 Basis of preparation

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

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

1.2 Significant accounting policies

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

HKAS 12 Amendment: Deferred Tax: Recovery of Underlying Assets

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

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

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

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

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

HKFRS 10: Consolidated Financial Statements

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

HKFRS 11: Joint Arrangements

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

HKFRS 12: Disclosure of Interests in Other Entities

HKFRS 12 becomes effective for annual periods beginning on or after 1 January 2013. The Group early adopted HKFRS 12 since 1 January2012, as a result of early adoption HKFRS 10. It includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 Consolidated and Separate Financial Statements, HKAS 31 Interests in Joint Ventures and HKAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities. Currently, HKFRS 12 did not have significant impact on the Group's financial position and performance.

HKAS 27 (2011) Separate Financial Statements

HKAS 27 (2011) becomes effective for annual periods beginning on or after 1 January 2013. The Group early adopted HKAS27 (2011) since 1 January 2012, as a result of early adoption HKFRS 10. HKAS 27 (2011) Separate Financial Statements contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. Currently, HKAS 27 (2011) did not have significant impact on the Group's financial statements.

HKAS 28 (2011) Investments in Associates and Joint Ventures

HKAS 28 (2011) becomes effective for annual periods beginning on or after 1 January 2013. The Group early adopted HKAS28 (2011) since 1 January 2012, as a result of early adoption HKFRS 10. It prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Currently, HKAS 28 (2011) did not have significant impact on the Group's financial statements.

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

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

2. Operating Segment Information

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

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

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

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

An analysis by business segment is as follows:

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

	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

3. Revenue

Revenues recognized during the period are as follows:

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

(a) Business tax and surcharges

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

Government surcharges are calculated at certain percentages of business tax.

4. Other Gains – net

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

5. Tax

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

(a) Mainland China income tax

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

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

(b) Other income tax

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

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

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

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

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

(d) Mainland China Withholding tax

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

6. Earnings per Share

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

7. Dividend

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

On the same day, the Board resolved to, subject to the shareholders' approval in the extraordinary general meeting, distribute a special dividend in the form of a distribution in specie of all of 2,658,781,817 shares in China New Town Development Company Limited ("CNTD") it owns to the shareholders. For details, please refer to the separate announcement released on the same day.

8. Trade Receivables

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

An aging analysis of trade receivables is set out below:

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

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

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

– Land Development: there are no clearly specified credit terms, the receivables represent the Group's share of the proceeds from land sold by local governments through public auction, such receivables from the local governments are generally collectible within 6 months after the land sale. However, it may take the Group longer to receive certain portion (e.g. the amount attributable to public utility fee) of the receivables and sometimes more than one year;

– Others: generally within 6 months.

Except for the amounts receivable in respect of the sale of land due from the local governments, the Group's other trade receivables relate to a large number of diversified customer 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.

9. Trade Payables

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

An aging analysis of trade payables is as follows:

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

Liquidity and Financial Resources

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

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

Charges on Assets and Contingent Liabilities

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

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

BUSINESS REVIEW

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

REAL ESTATE DEVELOPMENT

Progress in Sales

In the first half of 2012, the Group's major projects up for sale included Cedar Villa Original, Jiaxing Project, Haikou Bund Centre, Shenyang Albany and Central-Ring Centre, Lake Malaren, Lake Malaren Silicon Valley and Chengdu Albany Oasis Garden. From January to June 2012, contract sales amounted to approximately RMB749.81 million, with an area totaling 55,098m^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 its 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 obtained in April 2009, and pre-sale commenced after only twelve months, i.e. in May of 2010, and enjoyed a favorable market response. A total of 80 units were sold in the first half of 2012, with a total area of 9,004m^2, yielding revenue of RMB173.85 million (an average of RMB19,307 per m^2).

Jiaxing Project

The Jiaxing Project resides in Nanhu District, Jiaxing City, Zhejiang Province. Being another high-end product of SRE Group, the project builds quality, exquisite and luxury residential estates. Pre-sale commenced in November of 2011 and a total of 34 villas were sold in the first half of 2012, with a total area of 10,296m^2, yielding revenue of RMB142.90 million (an average of RMB13,880 per m^2).

Haikou Bund Centre

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

Shenyang Albany

Shenyang Albany was first featured in the Spring Housing Fair of Shenyang held on 26 March 2010, with the sales office opened on 9 April and pre-sale for phase-1 of the project commenced on 29 May 2010. In the first half of 2012, a total of 50 units with a total area of 4,852m^2 were sold for RMB41.02 million (averaging RMB8,454 per m^2).

Central-Ring Centre

As a landmark of the Shanghai Central Ring business district, the Central-Ring Centre, with all qualities of Grade 5A office buildings and well equipped with all sorts of facilities, has attracted an increasing number of companies. From January to June 2012, a total of 9 units measuring a total area of 1,532 m^2 were sold for RMB40.78 million (averaging RMB26,479 per m^2).

Lake Malaren UHO

Lake Malaren UHO rests in Luodian New Town, Baoshan District, Shanghai. With the involvement of international renowned designers, the project aims at projecting an innovative image of being trendy, high-tech and a self-orientated social network, and protracting itself as a post-modern, simple-style but fashionable landmark. Pre-sale commenced in November of 2011 and a total of 161 villas were sold in the first half of 2012, measuring a total area of 9,649m^2, yielding revenue of RMB130.96 million (an average of RMB13,573 per m^2).

Lake Malaren Silicon Valley

Lake Malaren Silicon Valley resides in Luodian New Town, Baoshan District, Shanghai. Leveraging on its experience over the past decade, SRE Group is the first to build mansions featuring five-star hotel management services right in the middle of the greens of a golf course, taking full advantages of the 36-hole golf course, the golf club, the five-star hotel and each being an exquisite individual house. Contract sale commenced in December of 2011 and a total of 4 villas were sold in the first half of 2012, measuring a total area of 1,651m^2, yielding revenue of RMB77.64 million (an average of RMB47,016 per m^2).

Chengdu Albany Oasis Garden

Chengdu Albany Oasis Garden resides in Sanguan Village of Hongguang Town in the Pi County of Chengdu. The site of the project is located in an area designated only for noble residences under the zoning plan of the municipal government of Chengdu. Pre-sale commenced in December of 2011 and a total of 111 units were sold in the first half of 2012, measuring a total area of 10,199m^2, yielding revenue of RMB52.37 million (an average of RMB5,135 per m^2).

Progress of Construction

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

Cedar Villa Original

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

Wuxi Jiangnan Rich Gate

As of the end of June 2012, 12 villas with floor area of 3524.07 m^2 have been completed and handed over to the buyers. Generally speaking, the construction and the ancillary and greening work of the project have all been completed. Decoration of the sold villas had been fully completed while the interior decoration of the unsold villas was about 60% completed.

Central-Ring Centre

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

Jiaxing Project

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

Shenyang Yosemite Oasis Community

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

Progress in Relocation

Albany Oasis Garden

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

Huangpu Bairun

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

Shenyang Albany

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

COMMERCIAL PROPERTIES

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

Shops at Shanghai Rich Gate

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

Shanghai Pullman Skyway Hotel

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

Shenyang Rich Gate Shopping Mall

Shenyang Rich Gate Shopping Mall combines a wide range of functions, such as shopping, fine food, leisure, entertainment, culture, sports & recreation and services. During the first half of 2012, the Mall adjusted and rationalized its mode of operation and rent structure as well as upgraded the shop exteriors. As of the end of June 2012, a total area of approximately 90,421m^2 were leased, accounting for 80% of the rentable area, and rental income totaled RMB27.67 million.

Central-Ring Centre

During the first half of 2012, Central-Ring Centre doubled its efforts to lure leasees. Currently, commercial area of 30,000m^2 as well as an underground parking garage of 57,000m^2 are for lease. For the six months till the end of June 2012, rental income totalled RMB15.93 million, RMB14.11 million of which was lease income while parking fee income totalled RMB1.82 million.

CAPITAL MARKET ACTIVITIES

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

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

MAJOR TRANSACTION

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

BUSINESS OUTLOOK

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

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

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

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

EMPLOYEES

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

SHARE OPTION SCHEME

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

CNTD'S MANAGEMENT STOCK OPTION PLAN ("MANAGEMENT GRANT")

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

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

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

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

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

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

NOMINATION COMMITTEE

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

The major duties of the Nomination Committee include:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on selection of individual nominated for directorships;

- to assess the independence of the independent non-executive directors;

- to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive; and

- to determine the policy for nomination of directors.

CORPORATE GOVERNANCE

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

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

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

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

On behalf of the Board
SRE Group Limited
Shi Jian
Chairman

Hong Kong, China, 31 August 2012

As at the date hereof, the Board comprises seven executive directors, namely Mr. Shi Jian, Mr. Li Yao Min, Mr. Yu Hai Sheng, Mr. Jiang Xu Dong, Mr. Shi Pin Ren, Mr. Zhang Hongfei and Mr. Shi Lizhou; 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. Zhuo Fumin, Mr. Yuan Pu and Mr. Chan, Charles Sheung Wai.

* *For identification purpose only*